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Advanced Bank Management

CHAPTERWISE MCQ BANK

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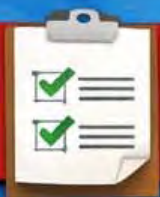


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Advanced Bank Management

Chapterwise MCQ Bank

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CONTENTS

CHAP 1.	Definition of Statistics, Importance & Limitations & Data Collection, Classification & Tabulation	7
CHAP 2.	Sampling Techniques	29
CHAP 3.	Measures of Central Tendency & Dispersion, Skewness, Kurtosis	52
CHAP 4.	Correlation and Regression	73
CHAP 5.	Time Series	96
CHAP 6.	Theory of Probability	117
CHAP 7.	Estimation	139
CHAP 8.	Linear Programming	162
CHAP 9.	Simulation	184
CHAP 10.	Fundamentals of Human Resource Management	207
CHAP 11.	Development of Human Resources	233
CHAP 12.	Human Implications of Organisations	256
CHAP 13.	Employees' Feedback and Reward System	281
CHAP 14.	Performance Management	304
CHAP 15.	Conflict Management and Negotiation	327
CHAP 16.	HRM and Information Technology	350
CHAP 17.	Overview of Credit Management	375
CHAP 18.	Analysis of Financial Statements	399
CHAP 19.	Working Capital Finance	423
CHAP 20.	Term Loans	447

CHAP 21.	Credit Delivery and Straight Through Processing	471
CHAP 22.	Credit Control and Monitoring	496
CHAP 23.	Risk Management and Credit Rating	519
CHAP 24.	Restructuring Rehabilitation and Recovery	543
CHAP 25.	Resolution of Stressed Assets under Insolvency and Bankruptcy Code 2016	568
CHAP 26.	Compliance Function in Banks	591
CHAP 27.	Compliance Audit	617
CHAP 28.	Compliance Governance Structure	642
CHAP 29.	Framework for Identification of Compliance Issues and Compliance Risks	668
CHAP 30.	Compliance Culture and GRC Framework	692
CHAP 31.	Compliance Function and Role of Chief Compliance Officer in NBFCs	717
CHAP 32.	Fraud and Vigilance in Banks	742

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CHAPTER 01

Definition of Statistics, Importance & Limitations & Data Collection, Classification & Tabulation

Oct/Nov 2010

1. Read the following case study and answer the questions that follow:

Mumbai University wants to analyze the GPA of its students. The raw data collected is huge and haphazard. The university administration decides to condense the data by removing unimportant details to accommodate the large number of observations. They first classify the data by two characteristics: Religion and Sex. They then convert inclusive GPA classes (e.g., 5-9, 10-14) into exclusive classes to establish continuous boundaries.

The classification method used by the university, which considers Religion and Sex simultaneously, is known as:

- (A) One-way Classification
- (B) Temporal Classification
- (C) Multi-way Classification
- (D) Two-way Classification

May/June 2025

2. Which of the following pairs incorrectly matches the statistical function with its description?

- (A) Presenting facts - Displaying information in a definite form
- (B) Simplifying data - Making complex information more understandable
- (C) Studying relationships - Limiting analysis to qualitative data only
- (D) Formulating policies - Helping in forecasting specific outcomes

Oct/Nov 2019

3. Which of the following defines the term "Population" in the context of statistics?

- (A) Total collection of observations studied by a researcher
- (B) A specific subset of a group chosen for

statistical investigation

- (C) A specific trait that differs between individuals in a set
- (D) A value representing an estimated but unknown sample metric

May/June 2005

4. Evaluate the following statements and choose the correct option:

statement I: In an Exclusive type of class interval, the upper limit is excluded from the respective class.

statement II: In an Inclusive type of class interval, both the lower and upper class limits are included.

- (A) Both Statement I and II are correct.
- (B) Both Statement I and II are incorrect.
- (C) Statement I is correct but Statement II is incorrect.
- (D) Statement I is incorrect but Statement II is correct.

Oct/Nov 2024

5. What is the definition of "Frequency Density"?

- (A) Class frequency divided by the Total Frequency
- (B) The sum of all frequencies up to a specific class interval
- (C) The mid-point of the class multiplied by its frequency
- (D) Class frequency divided by the Width of Class

May/June 2017

6. Evaluate the following statements and choose the correct option:

- I. Class boundaries are the new class intervals formed when inclusive classes are converted to exclusive classes.
- II. Class length is the difference between the

class mid-value and the lower class limit.

- (A) Both Statement I and II are correct.
- (B) Both Statement I and II are incorrect.
- (C) Statement I is correct but Statement II is incorrect.
- (D) Statement I is incorrect but Statement II is correct.

Oct/Nov 2005

7. In which year was the term statistics first used by Professor Achenwell to refer to the subject-matter as a whole?
- (A) 1749
 - (B) 1794
 - (C) 1849
 - (D) 1949

May/June 2020

8. Consider the following statements regarding the Limitations of Statistics:
- I. Statistical methods can be strictly applied to individual values of observations.
 - II. Statistics is the study of only those facts which are capable of being stated in number or quantity.
 - III. Results can be biased when data is handled by an inexperienced or dishonest person.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II and III

Oct/Nov 2015

9. What is the alternative term used for a "Statistic" when it gives information about unknown values in the corresponding population?
- (A) Estimator
 - (B) Parameter
 - (C) Variable
 - (D) Attribute

May/June 2013

10. Consider the following statements regarding questionnaires:
- I. They are survey instruments containing short closed-ended questions or broad open-ended questions.
 - II. They are used to collect data from a small group of subjects.

III. Currently, many questionnaires are developed and administered online.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) I and III only
- (C) II and III only
- (D) I, II and III

Oct/Nov 2021

11. What is the conceptual difference between a census and a sample survey?
- (A) Census studies every individual unit, while sample surveys study only a representative sub-part.
 - (B) Census evaluates a small sub-part, while sample surveys analyze every individual unit in data.
 - (C) Census relies on secondary data, while sample surveys rely exclusively on original primary sources.
 - (D) Census provides average results, whereas sample surveys provide exact results for the population.

May/June 2024

12. Consider the following statements regarding primary and secondary data:
- I. Data collected directly or first time by the investigator is primary data.
 - II. Questionnaires and Direct Interview Method are tools to collect primary data.
 - III. Primary data in the hands of one person can become secondary for all others.
 - IV. WHO and UNESCO publications are examples of primary data.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III only
 - (B) II, III, and IV only
 - (C) I, III, and IV only
 - (D) I, II, III, and IV

Oct/Nov 2008

13. Conceptually, what happens when an Inclusive class is converted to an Exclusive class to form class boundaries?
- (A) Adjacent class frequencies are merged to eliminate the numerical gaps between distinct intervals.
 - (B) The gap between class limits is halved, then added to the upper limit and subtracted

from the lower.

- (C) The lower limit is removed entirely to create an open-ended interval for the data distribution.
- (D) The width of every class is doubled to accommodate fractional values within the recorded range.

May/June 2006

14. Consider the following statements regarding the functions of statistics:
- I. It presents facts in a definite form.
 - II. It simplifies complex data.
 - III. It avoids providing techniques of comparison.
 - IV. It helps in formulating policies and forecasting outcomes.
- Which of the above statement(s) is/are correct?
- (A) I, II, and IV only
 - (B) II, III, and IV only
 - (C) I, III, and IV only
 - (D) I, II, III, and IV

Oct/Nov 2017

15. Identify the correct statement regarding the application of statistics in the Stock Market.
- (A) Return and Risk Analysis is used to evaluate the relative benefits of medical treatments.
 - (B) Probability theory is used to analyze consumer satisfaction and cost in financial markets.
 - (C) Stock market statistics relies on qualitative data such as individual investor intelligence.
 - (D) Methods like Correlation, Regression, and Time series analysis are used to forecast prices.

May/June 2008

16. Consider the following statements regarding statistical phases:
- I. Collection of data involves gathering numerical data from different published or unpublished sources, primary or secondary.
 - II. During Classification and Tabulation, raw data is divided into different groups or classes and represented in a form of a table.
 - III. Analysis of data utilizes different formulas and methods according to purpose of the

study.

IV. Interpretation occurs at the initial stage before analysis.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, III, and IV

Oct/Nov 2013

17. Identify the correct statement regarding the Multi-way Classification of data.
- (A) It classifies data for a single specific characteristic at any given time.
 - (B) It considers more than two characteristics at a time for data classification.
 - (C) It involves considering exactly two characteristics to classify the observations.
 - (D) It categorizes data based solely on chronological regions or specific locations.

May/June 2015

18. Consider the following statements regarding Population and Sample:
- I. Population is the entire collection of observations actually studied.
 - II. A sample is a part of the population selected for study.
 - III. Sample selection saves time and money.
 - IV. The population for infant health might be all children born in India in one particular year.
 - V. A sample must be non-representative of the actual population.
- Which of the above statement(s) is/are correct?
- (A) I, II, III, and IV only
 - (B) II, III, IV, and V only
 - (C) I, III, IV, and V only
 - (D) I, II, III, and V only

Oct/Nov 2012

19. Which of the following statements is incorrect regarding the distinction between primary and secondary data?
- (A) Primary data requires less money, time, and energy than secondary data.
 - (B) Data collected for the first time is called primary data.
 - (C) Primary data in the hands of one person can become secondary for all others.

- (D) Primary data are original as they are collected first time from the respondents directly.

May/June 2011

20. Consider the following statements regarding the limitations of statistics:
- I. It does not deal with individuals.
 - II. It deals with aggregates of facts.
 - III. It does not study qualitative or non-numerical data.
 - IV. Its results are exactly true in all individual cases.
 - V. Its results can be biased.
- Which of the above statement(s) is/are correct?
- (A) I, II, III, and V only
 - (B) II, III, IV, and V only
 - (C) I, III, IV, and V only
 - (D) I, II, III, and IV only

Oct/Nov 2020

21. Which of the following statements is incorrect regarding variables and attributes?
- (A) Prices of a commodity are an example of a variate.
 - (B) Age in years is categorized as a discrete variable.
 - (C) Colour of a ball is an example of an attribute.
 - (D) Religion is an example of a quantitative variable.

May/June 2022

22. Each of the following questions consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below.
- Assertion (A): Statistical methods cannot be applied for individual values of observations.
- Reason (R): Statistics is the study of mass data or a group of observations and deals with aggregates of facts.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is

true.

Oct/Nov 2023

23. Which of the following variables is NOT classified as a Discrete Variable?
- (A) Number of members in a family
 - (B) Percentage of marks
 - (C) Number of accidents
 - (D) Age in years

May/June 2016

24. Each of the following questions consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below.
- Assertion (A): It is a common practice to select a sample from a population for a statistical study.
- Reason (R): Parameters are always unknown values that are fixed, making whole population studies mathematically impossible.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2009

25. Which of the following is NOT considered a source of secondary data?
- (A) Data from face-to-face interviews
 - (B) Existing records from official sources
 - (C) Published magazines or journals
 - (D) Educational organisation records

May/June 2023

26. Each of the following questions consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below.
- Assertion (A): Statistical methods give results that are true only on an average in the long run.
- Reason (R): A part of the data (sample) is collected for study as a representative for the whole, which means the result obtained is not exactly the same as analyzing the whole data.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 (C) Assertion (A) is true, but Reason (R) is false.
 (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2018

27. What is the primary reason why statistical methods give results only on an average?
 (A) Sample results differ slightly from analyzing the entire population.
 (B) Statistical methods are mathematically incapable of exact calculations.
 (C) Statistics deals with qualitative data which cannot be measured.
 (D) Large sets of data are prone to systematic calculation errors.

May/June 2007

28. In the Zenith Bank scenario, the 500,000 customer base represents the bank's entire customer segment, whereas the 5,000 customers analyzed represent a:
 (A) Parameter
 (B) Census
 (C) Sample
 (D) Attribute

Oct/Nov 2025

29. Which of the following best represents the use of the 'Bayesian Decision Theory' in Business and Economics?
 (A) To assess the relative benefits of competing medical therapy programs.
 (B) To evaluate payoffs for alternative actions to select optimal decisions.
 (C) To identify or rectify mistakes made by individual players in sports.
 (D) To calculate the population standard deviation from a sample statistic.

May/June 2012

30. Read the following case study and answer the questions that follow:
Nexus Corp conducted a survey of employee salaries. The salaries (in thousands) recorded are: 40, 45, 50, 45, 60, 55, 40, 45, 50, 60.

The HR department decides to classify the data using discrete frequency distribution. They define the variable x as the salary amount.

What is the frequency of the salary value "45"?

- (A) 2
 (B) 3
 (C) 4
 (D) 5

Oct/Nov 2014

31. Which of the following best describes an "Open-end Class Interval"?
 (A) A class where the lower limit of the first class or upper limit of the last class is missing.
 (B) A class interval where the mid-value is exactly equal to the length of the class.
 (C) A class interval that strictly includes the upper limits of all subsequent classes.
 (D) A class interval specifically converted from inclusive to exclusive boundaries.

May/June 2019

32. If Nexus Corp expands the survey and later decides to group the salary data into intervals 40-49, 50-59, and 60-69, what type of class intervals are these?
 (A) Exclusive type
 (B) Open-end Class Interval
 (C) Multi-way classification
 (D) Inclusive type

Oct/Nov 2006

33. Arrange the following steps logically to describe the process of converting inclusive classes to exclusive class boundaries:
 I. Identify the inclusive class intervals.
 II. Find the difference between the lower limit of a class and the upper limit of the preceding class.
 III. Divide the difference by 2.
 IV. Add the value to the upper limit and subtract from the lower limit to form boundaries.
 (A) I, II, III, IV
 (B) I, III, II, IV
 (C) II, I, IV, III
 (D) IV, III, II, I

May/June 2021

34. The field of application described in the dengue study, which assesses the relative benefits of competing therapies, directly falls under which importance of statistics?
 (A) Business and Economics
 (B) Weather Forecast
 (C) Medical
 (D) Bank

Oct/Nov 2010

35. Match the field of study in List I with its statistical application in List II:
 List I: (Field)
 P. Business and Economics
 Q. Medical
 R. Stock Market
 S. Bank
 List II: (Application)
 1. Assessing relative benefits of competing therapies
 2. Determining maximum consumer satisfaction
 3. Return and Risk Analysis for Mutual Funds
 4. Application of probability theory for credit policies
 (A) P-2, Q-1, R-3, S-4
 (B) P-2, Q-1, R-4, S-3
 (C) P-3, Q-1, R-4, S-2
 (D) P-4, Q-2, R-3, S-1

May/June 2005

36. Read the following case study and answer the questions that follow:
A factory is tracking the weights of machine components. The weights are grouped into exclusive class intervals: 10-20, 20-30, 30-40, and 40-50 grams. The frequencies are 5, 12, 15, and 8 respectively. The production manager wants to calculate the frequency density for the 20-30 gram class interval.
 What is the Class Width for the 20-30 gram class interval?
 (A) 5
 (B) 10
 (C) 15
 (D) 20

Oct/Nov 2022

37. Match the term in List I with its definition in List II:

List I: (Term)
 P. Population
 Q. Sample
 R. Variate
 S. Attribute

List II: (Definition)

1. A characteristic expressed in numerical terms
 2. A characteristic that cannot be expressed in numerical terms
 3. The entire collection of observations actually studied
 4. A part or group of units representative of the whole
 (A) P-3, Q-4, R-1, S-2
 (B) P-1, Q-4, R-2, S-3
 (C) P-3, Q-1, R-4, S-2
 (D) P-4, Q-2, R-3, S-1

May/June 2018

38. If the production manager calculates the relative frequency for the 20-30 gram class interval, what will the value be?
 (A) 0.20
 (B) 0.30
 (C) 0.375
 (D) 1.20

Oct/Nov 2016

39. Which of the following pairs correctly matches the type of variable with its example?
 (A) Continuous Variable - Percentage of marks
 (B) Discrete Variable - Height
 (C) Continuous Variable - Number of accidents
 (D) Discrete Variable - Weight

May/June 2014

40. What will be the new Lower Class Boundary for the inclusive class 10-14 when converted to an exclusive class?
 (A) 9.0
 (B) 9.5
 (C) 10.0
 (D) 10.5

Oct/Nov 2007

41. Which of the following pairs incorrectly matches the data type with its description?
 (A) Primary Data - Information processed by an agency
 (B) Primary Data - Data gathered via questionnaires

- (C) Secondary Data - Data from WHO published records
 (D) Secondary Data - Data from LIC existing records

May/June 2025

42. According to Professor Achenwell, how is the term "statistics" formally defined?
 (A) The statistical measure of an economy
 (B) The political science of many countries
 (C) The scientific study of mass data
 (D) The analysis of qualitative variables

Oct/Nov 2019

43. Evaluate the following statements and choose the correct option:
 I. A parameter is usually an unknown value that is fixed.
 II. A statistic is used to estimate a parameter and is calculated from a sample.
 (A) Both Statement I and II are correct.
 (B) Both Statement I and II are incorrect.
 (C) Statement I is correct but Statement II is incorrect.
 (D) Statement I is incorrect but Statement II is correct.

May/June 2009

44. How is "Variate" defined in statistical terminology?
 (A) A characteristic that varies from one individual to another but cannot be expressed numerically
 (B) A characteristic that takes only a countable and usually finite number of values
 (C) A characteristic that varies from one individual to another and can be expressed in numerical terms
 (D) A numerical value or function of the observations of the entire population

Oct/Nov 2011

45. Evaluate the following statements and choose the correct option:
 I. Primary data is original as it is collected first time from the respondents.
 II. Secondary data collection requires more money, time, and energy than primary data.
 (A) Both Statement I and II are correct.
 (B) Both Statement I and II are incorrect.
 (C) Statement I is correct but Statement II is

incorrect.

- (D) Statement I is incorrect but Statement II is correct.

May/June 2010

46. The word 'statistics' has been derived from the Italian word:
 (A) statisticum
 (B) statistik
 (C) statistia
 (D) statista

Oct/Nov 2024

47. Consider the following statements regarding the Importance of Statistics:
 I. In banking, credit policies are decided based on the statistical analysis of profitability and demand deposits.
 II. In sports, statistics are used by players to identify or rectify their mistakes.
 III. In weather forecasting, probability theory is exclusively used to predict weather patterns.
 Which of the above statement(s) is/are correct?
 (A) I and II only
 (B) II and III only
 (C) I and III only
 (D) I, II and III

May/June 2017

48. What is the mathematical formula used to calculate the Mid-Value or Class Mark of a class interval?
 (A) Difference between the upper and lower limits of a class
 (B) Percentage of class frequency relative to total frequency
 (C) Ratio of class frequency to the specific width of class
 (D) Average of the lower and upper limits of a class

Oct/Nov 2005

49. Consider the following statements regarding the types of Class Intervals:
 I. 0-10, 10-20, 20-30 is an example of an Inclusive type.
 II. 60-69, 70-79, 80-89 is an example of an Inclusive type.
 III. In the class 10-15 (Exclusive type), the value 15 is excluded and put in the class

15-20.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II and III

May/June 2020

50. Why is a Continuous Variable conceptually distinct from a Discrete Variable?

- (A) Discrete variables are non-numerical, while continuous variables are always expressed in numbers.
- (B) Discrete variables include decimals, while continuous variables only allow for whole numbers.
- (C) Discrete variables take distinct values, while continuous variables take any value in a range.
- (D) Continuous variables measure qualities, while discrete variables are used for measuring quantities.

Oct/Nov 2015

51. Consider the following statements regarding classification of data:

- I. Classification condenses data by removing unimportant details.
- II. Arranging data into homogeneous groups according to common characteristics is called Classification.
- III. Classified data presented in a more organised way is known as Tabulation.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II and III

May/June 2013

52. How does the Exclusive type of class interval function conceptually?

- (A) Both limits are included within the boundaries of the respective class during data frequency counts.
- (B) The interval intentionally excludes one limit while the other is strictly maintained for data entry.
- (C) Class frequency is excluded from the calculation of the total cumulative

frequency for that set.

- (D) Upper limits are excluded from the class and placed into the following sequential class interval.

Oct/Nov 2021

53. Consider the following statements regarding Variables and Attributes:

- I. Age in years is categorized as a continuous variable.
- II. Percentage of marks is a continuous variable.
- III. Religion of a human is an attribute.
- IV. Number of accidents is a discrete variable.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, III, and IV

May/June 2024

54. Which of the following is a correct statement regarding secondary data?

- (A) Secondary data are those collected for the first time by the investigator.
- (B) Secondary data collection requires significantly more time than primary data.
- (C) Secondary data is second-hand information already processed by an agency.
- (D) Secondary data includes information from direct personal interview methods.

Oct/Nov 2008

55. Consider the following statements regarding frequency distribution:

- I. Frequency is the number of occurrences of a variable's value.
- II. The left column of a frequency distribution table contains the list of frequencies.
- III. Croxton and Cowden defined frequency distribution as a statistical table.
- IV. A discrete frequency distribution involves variables taking distinct values.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) I, III, and IV only
- (C) II, III, and IV only
- (D) I, II, III, and IV

May/June 2006

56. Which of the following statements is correct regarding the calculation of relative frequency?
- (A) Relative Frequency is calculated by dividing the Class frequency by the Total frequency.
 - (B) Relative Frequency is calculated by dividing the Total Frequency by the Class frequency.
 - (C) Relative Frequency is determined by dividing the Class frequency by the Width of the Class.
 - (D) Relative Frequency requires multiplying the Class frequency ratio by 100.

Oct/Nov 2017

57. Consider the following statements regarding applications of statistics:
- I. Businessmen use time series analysis to predict the effect of large numbers of variables.
 - II. Statistics in economics analyzes elasticity of demand.
 - III. Clinical research avoids using statistics for assessing relative benefits of therapies.
 - IV. Correlation and Regression techniques forecast stock prices.
 - V. Return and Risk Analysis calculates Personal Portfolios.

Which of the above statement(s) is/are correct?

- (A) I, II, IV, and V only
- (B) II, III, IV, and V only
- (C) I, II, III, and IV only
- (D) I, III, IV, and V only

May/June 2008

58. Identify the incorrect statement concerning the limitations of statistics.
- (A) Statistics does not study qualitative or non-numerical data points.
 - (B) Statistical methods are efficiently applied to individual values.
 - (C) Statistical methods provide results that are true only on average.
 - (D) Results can be biased if handled by an inexperienced or dishonest person.

Oct/Nov 2013

59. Consider the following statements regarding data classification bases:
- I. Qualitative base uses attributes such as

sex, religion, and intelligence.

- II. Quantitative base classifies data according to characteristics like height, weight, and age.
- III. Geographical base classifies data by geographical regions or locations like states and cities.
- IV. Chronological base arranges data by time of occurrence and is also called Time Series data.
- V. Multi-way classification occurs when exactly two characteristics are considered at a time.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV only
- (B) II, III, IV, and V only
- (C) I, III, IV, and V only
- (D) I, II, III, and V only

May/June 2015

60. Identify the incorrect statement about the functions of statistics.
- (A) Statistics presents facts in a definite form.
 - (B) Statistics simplifies complex data.
 - (C) Statistics provides techniques to avoid comparison.
 - (D) Statistics studies the relationship between two or more variables.

Oct/Nov 2012

61. Consider the following statements regarding frequency distribution formulas:
- I. Class Length is calculated as Upper Class Interval minus Lower Class Interval.
 - II. Mid-Value is the mid-point of the class, calculated as $(\text{Lower class-limit} + \text{Upper Class limit})/2$.
 - III. Relative Frequency is calculated as Total frequency divided by Class frequency.
 - IV. Percentage Frequency is calculated as $(\text{Class frequency}/\text{Total Frequency}) \times 100$.
 - V. Frequency density of a class interval is calculated as Class frequency divided by Width of Class.

Which of the above statement(s) is/are correct?

- (A) I, II, IV, and V only
- (B) I, II, III, and V only
- (C) II, III, IV, and V only
- (D) I, III, IV, and V only

May/June 2011

62. Which of the following is NOT one of the four distinct phases of statistical analysis of data?
- (A) Collection of statistical data
 - (B) Standardized analysis of data
 - (C) Presentation of facts
 - (D) Interpretation of final data

Oct/Nov 2020

63. Each of the following questions consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below.
- Assertion (A): Primary data is generally considered more accurate than secondary data.
- Reason (R): Primary data are original as they are collected first time from the respondents directly or by preparing questionnaires.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

May/June 2022

64. Which of the following is NOT a characteristic of a "Parameter"?
- (A) It is a numerical value or function of the observations of the entire population.
 - (B) It is usually an unknown value that is fixed.
 - (C) Population mean and population median are examples of a parameter.
 - (D) It is a quantity calculated directly from a sample to estimate the whole.

Oct/Nov 2023

65. Each of the following questions consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below.
- Assertion (A): In an inclusive type of class interval, the upper limit of the class is excluded and put in the next class.
- Reason (R): Inclusive type class intervals are those where the lower and upper limits are both included within the same class.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2016

66. Which of the following is NOT a base of classification for data?
- (A) Qualitative Base
 - (B) Quantitative Base
 - (C) Theoretical Base
 - (D) Chronological Base

Oct/Nov 2009

67. Read the following case study and answer the questions that follow:
- Zenith Bank is revising its credit policies for the upcoming financial year. The management has decided to utilize statistical analysis of profitability, demand deposits, time deposits, and the credit ratio. They analyze the data of 5,000 customers from a total customer base of 500,000 to formulate the new policies.*
- What specific statistical theory forms the foundation of the credit policies decided by the banking industry?
- (A) Application of probability theory
 - (B) Bayesian Decision Theory
 - (C) Time series analysis
 - (D) Relative frequency distribution

May/June 2023

68. Which of the following best describes the core utility of "Classification" of raw data?
- (A) It deletes raw data to save physical storage space for researchers.
 - (B) It translates numerical variables into qualitative attributes.
 - (C) It automatically converts primary data into secondary data sources.
 - (D) It removes minor details to make data understandable and comparable.

Oct/Nov 2018

69. If Zenith Bank calculates the "mean demand deposit" strictly of the 5,000 selected

customers, this calculated value is defined as a:

- (A) Parameter
- (B) Variate
- (C) Population limit
- (D) Statistic

May/June 2007

70. What is the most appropriate reason for collecting data through a sample rather than evaluating the entire population?

- (A) A sample entirely eliminates the possibility of biased research results.
- (B) A population cannot contain continuous variables, whereas a sample can.
- (C) Evaluating entire populations is often too time-consuming and expensive.
- (D) Population data is always classified as secondary, making it unreliable.

Oct/Nov 2025

71. In the Nexus Corp scenario, which of the following describes the variable 'salary' as categorized based on its characteristics?

- (A) Attribute
- (B) Discrete Variable
- (C) Qualitative data
- (D) Non-numerical data

May/June 2012

72. Arrange the following four distinct phases of statistical analysis of data in their correct chronological sequence:

- I. Analysis of data
- II. Interpretation of data
- III. Collection of data
- IV. Classification and Tabulation of data
- (A) III, IV, I, II
- (B) IV, III, I, II
- (C) III, I, IV, II
- (D) I, III, IV, II

Oct/Nov 2014

73. The data collection method used by the medical agency, which relies on existing hospital records, is classified as:

- (A) Secondary data
- (B) Direct Interview Method
- (C) Questionnaires
- (D) Primary data

May/June 2019

74. Match the origin of the word 'statistics' in List I with the corresponding term in List II:

List I: (Origin)

- P. Latin word
- Q. Italian word
- R. German word
- S. English word (Subject)

List II: (Term)

- 1. statistik
- 2. statista
- 3. statisticum
- 4. statistics
- (A) P-3, Q-2, R-1, S-4
- (B) P-1, Q-4, R-2, S-3
- (C) P-3, Q-1, R-4, S-2
- (D) P-4, Q-2, R-3, S-1

Oct/Nov 2006

75. The classification of patient data according to geographical regions such as cities or states is based on which type of classification base?

- (A) Geographical Base
- (B) Qualitative Base
- (C) Quantitative Base
- (D) Chronological Base

May/June 2021

76. Match the basis of classification in List I with its example in List II:

List I: (Basis)

- P. Qualitative Base
- Q. Quantitative Base
- R. Geographical Base
- S. Chronological Base

List II: (Example)

- 1. Intelligence and literacy
- 2. Income and marks
- 3. Population in different states of India
- 4. Sales of a company for different years
- (A) P-2, Q-3, R-1, S-4
- (B) P-1, Q-2, R-3, S-4
- (C) P-3, Q-1, R-4, S-2
- (D) P-4, Q-2, R-3, S-1

Oct/Nov 2010

77. In the manufacturing quality control scenario, what is the Frequency Density for the 20-30 gram class interval?

- (A) 0.8
- (B) 1.2
- (C) 1.5

(D) 12.0

May/June 2005

78. Match the statistical formula in List I with its name in List II:

List I: (Formula)

- P. Class frequency / Width of Class
 Q. Class frequency / Total frequency
 R. (Lower class-limit + Upper class-limit)/2
 S. (Class frequency / Total frequency) x 100

List II: (Name)

1. Mid-Value or Class Mark
 2. Frequency Density
 3. Relative Frequency
 4. Percentage Frequency

- (A) P-2, Q-3, R-1, S-4
 (B) P-1, Q-4, R-2, S-3
 (C) P-3, Q-1, R-4, S-2
 (D) P-4, Q-2, R-3, S-1

NODIA

Oct/Nov 2022

79. The process undertaken by Mumbai University to condense raw data, remove unimportant details, and arrange it into homogeneous groups is defined as:
- (A) Collection of data
 (B) Classification
 (C) Tabulation
 (D) Interpretation of data

May/June 2018

80. Which of the following pairs correctly matches the statistical concept with its description?
- (A) Parameter - A quantity used to estimate unknown values from a sample
 (B) Tabulation - The first stage of statistical investigation
 (C) Census - Collecting data specifically for a sub-part of the population
 (D) Statistic - A quantity or function of the observations of a data sample

ANSWERS

1. (D) Two-way Classification
Classification involves organizing data based on shared characteristics to simplify analysis. When data is categorized using exactly two distinct traits simultaneously, such as religion and sex, it is termed two-way classification. This method helps researchers understand relationships between multiple variables at once. It facilitates the conversion of raw, haphazard data into a structured format suitable for detailed observation.
2. (C) Studying relationships - Limiting analysis to qualitative data only
Statistics primarily focuses on the study of quantitative data and aggregates of facts. While it helps in studying relationships between various variables, it is not restricted to qualitative analysis. In fact, one of the main limitations of statistical methods is their inability to process non-numerical or purely qualitative information directly without some form of numerical transformation or coding.
3. (A) Total collection of observations studied by a researcher
In statistical research, a population encompasses the entire set of individuals, objects, or measurements that are of interest for a specific investigation. It represents the total aggregate from which data can be collected. Depending on the scope of the study, the population can be finite, like students in a university, or infinite, providing the foundation for all subsequent analysis.
4. (A) Both Statement I and II are correct.
Class intervals are fundamental for grouping continuous or discrete data. In exclusive intervals, the upper limit of one class is the lower limit of the next, and values equal to the upper limit are excluded from that class. Conversely, inclusive intervals include both the lower and upper limits within the same class, necessitating conversion to boundaries for continuous data analysis.
5. (D) Class frequency divided by the Width of Class
Frequency density is a metric used to represent the concentration of observations within a specific class interval. It is calculated by dividing the absolute frequency of a class by its corresponding width or length. This calculation is particularly useful when comparing classes of unequal widths in a histogram, ensuring that the area of each bar accurately represents the frequency distribution.
6. (C) Statement I is correct but Statement II is incorrect.
Class boundaries represent the true limits of a class interval, typically created by converting inclusive classes into a continuous series to eliminate gaps. However, the length of a class is defined as the difference between the upper and lower limits or boundaries. It is not determined by subtracting the lower limit from the mid-value, which describes a different statistical measure.
7. (A) 1749
The formal use of the term statistics to describe the subject as a whole is attributed to Professor Gottfried Achenwall. In 1749, he introduced the concept to refer to the political science of many countries. Since then, the field has evolved from simple data collection for state purposes into a complex mathematical discipline used for data analysis and interpretation.
8. (B) II and III only
Statistics deals with the study of aggregates rather than individual observations, making it inapplicable to single data points. It is confined to facts that can be expressed numerically or quantitatively. Furthermore, statistical results are susceptible to bias and manipulation, especially when the data collection or analysis is performed by individuals who lack the necessary expertise or integrity.

9. (A) Estimator

A statistic is a numerical measure calculated from sample data. When this value is used to infer or provide information about an unknown population parameter, it functions as an estimator. This distinction is vital in inferential statistics, where the goal is to use sample-based evidence to make broader generalizations about the entire population from which the sample was drawn.

10. (B) I and III only

Questionnaires serve as essential instruments for gathering data, often featuring a mix of closed-ended and open-ended questions. While they were traditionally distributed on paper, modern research frequently utilizes online platforms for broader reach and efficiency. However, they are typically designed for large-scale data collection from extensive groups rather than being limited to small subsets of subjects for study.

11. (A) Census studies every individual unit, while sample surveys study only a representative sub-part.

The primary distinction between a census and a sample survey lies in the scope of data collection. A census involves the complete enumeration of every unit within a population, providing exhaustive detail. In contrast, a sample survey selects a smaller, representative group for study. This approach is generally preferred when analyzing the entire population is impractical due to constraints.

12. (A) I, II, and III only

Primary data refers to original information collected firsthand for a specific purpose using methods like interviews or questionnaires. Once this data is published or shared, it becomes secondary data for other users. Publications from international organizations like WHO are considered secondary sources for researchers, as they provide data that has already been processed and compiled by another agency.

13. (B) The gap between class limits is halved, then added to the upper limit and subtracted from the lower.

To create continuous class boundaries from inclusive intervals, a specific adjustment process is followed. First, the difference between the

upper limit of one class and the lower limit of the next is calculated. This value is halved and then subtracted from all lower limits and added to all upper limits. This procedure eliminates numerical gaps, ensuring a continuous data distribution.

14. (A) I, II, and IV only

Statistics serves several critical roles in data analysis, including presenting complex facts in a simplified, definite form. It facilitates the formulation of policies and the forecasting of future outcomes through trend analysis. Contrary to avoiding comparisons, statistics provides specialized techniques and methods specifically designed to compare different data sets, identify relationships, and draw meaningful conclusions for various research purposes.

15. (D) Methods like Correlation, Regression, and Time series analysis are used to forecast prices.

In financial markets, statistical methods are indispensable for predicting stock price movements and assessing market trends. Analysts frequently employ advanced techniques such as correlation to study variable relationships, regression for predictive modeling, and time series analysis to evaluate historical data patterns. These quantitative tools help investors make informed decisions by transforming raw market data into actionable insights for future forecasting.

16. (A) I, II, and III only

The statistical process begins with data collection from various sources, followed by classification and tabulation to organize the raw information into manageable groups. Analysis then involves applying mathematical formulas to identify patterns. Interpretation is the final stage, occurring only after the analysis is complete, where researchers draw conclusions and explain the significance of the findings in the context of the study.

17. (B) It considers more than two characteristics at a time for data classification.

Multi-way classification is an advanced method of organizing data based on three or more characteristics simultaneously. Unlike one-way or two-way classification, which focus on single or double traits respectively, multi-way

analysis provides a more comprehensive view of complex data sets. This approach allows researchers to observe how multiple factors interact and influence the observations within a single structured framework.

18. (A) I, II, III, and IV only

A population represents the complete collection of observations for a study, while a sample is a carefully selected subset. Utilizing samples is highly efficient, as it significantly reduces the time and financial resources required for research. For results to be valid and generalizable, it is crucial that the chosen sample is truly representative of the characteristics found in the total population.

19. (A) Primary data requires less money, time, and energy than secondary data.

Collecting primary data is a resource-intensive process that demands significant time, effort, and financial investment because it involves gathering original information directly from respondents. In contrast, secondary data is much more economical and faster to obtain, as it relies on existing records and published sources. The originality of primary data is its main advantage, despite the higher collection costs involved.

20. (A) I, II, III, and V only

Statistics is primarily concerned with the analysis of groups or aggregates rather than individual cases. It is restricted to numerical data and cannot directly study qualitative attributes. Furthermore, statistical conclusions are generally true only on an average for the entire group, not necessarily for every single unit. Results may also be biased if the methods used are improper or intentionally misleading.

21. (D) Religion is an example of a quantitative variable.

In statistics, variables are divided into quantitative and qualitative categories. Religion is a qualitative characteristic, also known as an attribute, because it cannot be expressed in meaningful numerical terms. Quantitative variables, or variates, include measures like price and height, which are naturally represented by numbers. Discrete variables represent countable

values, while continuous variables can take any value within a range.

22. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Statistical methodology is inherently designed to analyze collective data sets or mass observations to identify general trends and patterns. Because statistics focuses on the behavior of groups, its laws do not apply to isolated, individual observations. Therefore, the reliance on aggregates of facts is the fundamental reason why statistical analysis cannot be validly performed on single, independent data points or individual values.

23. (B) Percentage of marks

Discrete variables are those that take on specific, distinct values, usually whole numbers that result from counting, such as the number of family members or accidents. In contrast, percentage of marks is considered a continuous variable because it can take any value within a range, including fractional or decimal points. This allows for infinite possible values between any two given whole numbers.

24. (C) Assertion (A) is true, but Reason (R) is false.

Selecting a sample is a standard practice in research to make studies more manageable and cost-effective. While population parameters are often unknown, studying an entire population is not mathematically impossible; it is simply impractical in many scenarios due to constraints in time, labor, and resources. Sample statistics are used to estimate these parameters when a full census is not feasible for the researcher.

25. (A) Data from face-to-face interviews

Secondary data consists of information that has been previously collected and processed by other individuals or organizations for different purposes. Face-to-face interviews are a primary data collection method, where the researcher gathers original information directly from the source for the first time. Records from educational organizations, official government agencies, and published journals are typical examples of established secondary data sources.

- 26.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Statistical conclusions are derived from analyzing a representative subset, or sample, of a larger population. Because this sample may not perfectly mirror every individual variation within the entire group, the results are approximations that hold true as a general average. This inherent sampling variability means that while statistical findings are reliable for broad generalizations, they may not apply exactly to every single unit.

- 27.** (A) Sample results differ slightly from analyzing the entire population.

The primary reason statistical results are considered true only on average is the reliance on sampling. When a researcher studies a sample rather than the entire population, there is an inherent difference between the sample statistic and the actual population parameter. This variation means that while the findings describe general group tendencies accurately, they cannot guarantee exact precision for every individual.

- 28.** (C) Sample

In this scenario, the total customer base of 500,000 constitutes the population, which is the entire group under consideration. The smaller group of 5,000 customers selected for detailed analysis is a sample. Sampling allows the bank to infer the characteristics and behaviors of the entire population without the need for an expensive and time-consuming study of every individual customer.

- 29.** (B) To evaluate payoffs for alternative actions to select optimal decisions.

Bayesian Decision Theory is a statistical approach used in business and economics to help managers make choices under uncertainty. It involves evaluating the potential outcomes and payoffs of various alternative actions by incorporating prior knowledge and updated information. This allows decision-makers to identify the most favorable or optimal course of action among several possibilities, minimizing risks and maximizing expected gains.

- 30.** (B) 3

Frequency in a discrete distribution refers to the number of times a specific value appears in a data set. By examining the salary records provided—40, 45, 50, 45, 60, 55, 40, 45, 50, 60—it is observed that the value 45 occurs exactly three times. Therefore, in the frequency table constructed by the HR department, the frequency for this salary level is three.

- 31.** (A) A class where the lower limit of the first class or upper limit of the last class is missing. An open-end class interval is a type of frequency distribution where either the lower limit of the initial class or the upper limit of the final class is not specified. These are often labeled using phrases such as less than or above. This structure is useful for handling data sets with extreme values that fall outside typical range boundaries, ensuring all observations are included.

- 32.** (D) Inclusive type

Inclusive class intervals are those where both the stated lower and upper limits are included in the frequency count for that specific class. In the intervals 40-49 and 50-59, the value 49 belongs to the first group and 50 belongs to the next. This creates a gap between the classes, distinguishing them from exclusive intervals where the limits would overlap and be continuous.

- 33.** (A) I, II, III, IV

Converting inclusive classes to exclusive boundaries requires a logical sequence. First, identify the existing intervals and the numerical gap between them. Next, find the difference between the upper limit of one class and the lower limit of the next. Divide this difference by two, then subtract it from the lower limits and add it to the upper limits to create continuous boundaries.

- 34.** (C) Medical

The use of statistics to evaluate the relative benefits and effectiveness of different medical treatments or programs falls directly under the medical field. Clinical research relies heavily on statistical methods to analyze patient outcomes, determine the success rates of new therapies, and ensure that treatments are safe

and beneficial. This application helps healthcare professionals make data-driven decisions for better patient care.

35. (A) P-2, Q-1, R-3, S-4

Statistics has diverse applications: in business and economics, it helps determine consumer satisfaction; in medicine, it assesses competing therapies; in the stock market, it is used for return and risk analysis; and in banking, probability theory guides credit policies. Correctly matching these fields with their specific statistical functions is essential for understanding how data analysis supports decision-making across different professional sectors.

36. (B) 10

The class width, also known as class length or interval size, is the difference between the upper limit and the lower limit of a class interval. For the exclusive class interval of 20-30 grams, subtracting the lower limit of 20 from the upper limit of 30 results in a width of 10. This measurement indicates the range of values covered by that specific class.

37. (A) P-3, Q-4, R-1, S-2

Understanding basic statistical terms is crucial for data analysis. A population is the entire collection of observations studied, while a sample is a representative subset. A variate is a numerical characteristic that varies among individuals, such as height or weight. In contrast, an attribute refers to a qualitative characteristic that cannot be expressed in numerical terms, such as color or gender.

38. (B) 0.30

Relative frequency is determined by dividing the frequency of a specific class by the total frequency of all classes. In this factory scenario, the frequency of the 20-30 gram class is 12, and the total frequency is the sum of 5, 12, 15, and 8, which equals 40. Dividing 12 by 40 results in a relative frequency of 0.30 for that interval.

39. (A) Continuous Variable - Percentage of marks
Variables are classified based on the types of values they can take. A continuous variable can take any value within a range, including decimals, which makes percentage of marks

a correct example. Discrete variables involve countable, whole-number values, such as the number of accidents. Height and weight are also continuous variables, as they can be measured with great precision using fractional units.

40. (B) 9.5

When converting the inclusive class 10-14 to an exclusive boundary, the gap between it and the preceding class must be considered. The gap is 1. Halving this gap gives 0.5. Subtracting this correction factor from the lower limit of 10 gives the new boundary of 9.5, while adding it to the upper limit of 14 gives 14.5.

41. (A) Primary Data - Information processed by an agency

Primary data is original information collected directly by an investigator for the first time. In contrast, information that has already been processed, compiled, or published by an agency or organization is classified as secondary data. Therefore, data gathered through questionnaires is primary, while records from established entities like the WHO or LIC are secondary because they are obtained from pre-existing sources.

42. (B) The political science of many countries
Professor Gottfried Achenwell, who is credited with the first formal use of the term statistics in 1749, defined it as the political science of many countries. During that era, the discipline was primarily focused on collecting and organizing state-related data for administrative and political purposes. This historical definition laid the groundwork for the modern, mathematically-driven field of statistical science.

43. (A) Both Statement I and II are correct.

A parameter is a fixed, numerical value that describes a characteristic of an entire population, such as the population mean. Because parameters are often unknown, researchers use a statistic, which is a value calculated from a sample, to estimate them. This relationship forms the basis of inferential statistics, where sample-based evidence allows for making informed conclusions about the broader population.

- 44.** (C) A characteristic that varies from one individual to another and can be expressed in numerical terms

In statistics, a variate is a quantitative characteristic that takes different numerical values across different units of a population. Common examples include measurements like age, height, income, or temperature. Unlike attributes, which are qualitative and cannot be measured numerically, variates provide the numerical data required for mathematical analysis, calculation of averages, and the study of relationships between different variables.

- 45.** (C) Statement I is correct but Statement II is incorrect.

Primary data is original and gathered directly from respondents for the first time, ensuring specific relevance to a study. However, the claim that secondary data collection requires more resources is false. In fact, secondary data is generally much cheaper and faster to collect because it involves using pre-existing information, whereas primary data demands significant investments of time, money, and personal effort.

- 46.** (D) statista

The word statistics has roots in several languages, each reflecting its historical use in statecraft. While the German word is statistik and the Latin term is status, it is specifically derived from the Italian word statista. These origins highlight the early role of the subject in providing quantitative information about the state and its various political and economic functions.

- 47.** (A) I and II only

Statistics is vital in banking for developing credit policies through the analysis of deposits and profitability. In sports, it allows players to track performance and correct errors. While statistics is used in weather forecasting, it is not used exclusively; meteorologists combine probability theory with complex physical models and environmental data to predict weather patterns, rather than relying solely on statistical methods.

- 48.** (D) Average of the lower and upper limits of a class

The mid-value or class mark is a single value that represents an entire class interval. It is mathematically calculated by finding the arithmetic average of the lower and upper class limits. This is done by adding the two limits together and dividing the sum by two. The mid-value is essential for calculating various statistical measures, such as the mean of a frequency distribution.

- 49.** (B) II and III only

Intervals like 0-10 and 10-20 are exclusive because the upper limit of one class is the lower limit of the next. Inclusive intervals, such as 60-69 and 70-79, include both stated limits within the class. In exclusive types, a value equal to the upper limit is excluded and moved to the next class, ensuring each data point is counted only once.

- 50.** (C) Discrete variables take distinct values, while continuous variables take any value in a range.

The fundamental distinction between these variables lies in the values they can assume. Discrete variables represent countable units that take specific, isolated values, typically whole numbers. Continuous variables, however, can take any numerical value within a defined range, including decimals and fractions. This allows continuous variables to represent measurements with infinite precision, whereas discrete variables are limited to distinct jumps between values.

- 51.** (D) I, II and III

Classification is the process of organizing raw data into homogeneous groups based on common characteristics, which helps simplify the information by removing unnecessary details. This organization makes data easier to understand and compare. Once the data has been classified, presenting it in a more structured, systematic format using rows and columns is known as tabulation, which facilitates further analysis.

- 52.** (D) Upper limits are excluded from the class and placed into the following sequential class interval.

In an exclusive class interval system, the class limits are designed so that the upper limit of one interval is identical to the lower limit of the next. To avoid double-counting, any observation equal to the upper limit is excluded from that class and recorded in the subsequent one. This method creates a continuous range of values across the entire frequency distribution.

- 53.** (B) II, III, and IV only

While age can be continuous, it is often treated as discrete in years. However, percentage of marks is definitely a continuous variable because it includes fractions. Attributes like religion are qualitative and cannot be measured numerically. The number of accidents is a discrete variable because it involves counting distinct occurrences. Correct identification of these data types is essential for selecting appropriate statistical analysis methods.

- 54.** (C) Secondary data is second-hand information already processed by an agency.

Secondary data is characterized by being previously collected and organized by someone other than the current researcher. It is considered second-hand information because it has already undergone processing or publication by an agency, such as government records or journal articles. This distinguishes it from primary data, which is gathered firsthand through original methods like interviews, and is generally more efficient to obtain.

- 55.** (B) I, III, and IV only

Frequency is the count of how often a specific value appears. According to Croxton and Cowden, a frequency distribution is a statistical table that organizes data into classes. In a discrete distribution, variables take on distinct, countable values. Typically, the left column of such a table lists the variable values or classes, while the right column contains the corresponding frequencies.

- 56.** (A) Relative Frequency is calculated by dividing the Class frequency by the Total frequency. Relative frequency represents the proportion of the total number of observations that fall

within a particular class interval. It is calculated by taking the absolute frequency of that class and dividing it by the sum of frequencies for all classes in the distribution. This value is always between zero and one, providing a way to compare the distribution regardless of the total sample size.

- 57.** (A) I, II, IV, and V only

Statistics is widely applied in various fields: time series analysis helps businesses predict variables, economics uses it for demand elasticity, and financial analysts use correlation and regression for stock forecasting. Medical research also relies heavily on statistics to evaluate treatment benefits. In personal finance, risk and return analysis is a standard tool for managing portfolios, demonstrating the broad utility of quantitative methods.

- 58.** (B) Statistical methods are efficiently applied to individual values.

A major limitation of statistics is that its methods are designed to analyze aggregates of facts and group behaviors, not individual units. Statistics cannot provide meaningful conclusions or predictions for a single, isolated observation. Furthermore, it is confined to numerical data and can yield biased results if handled improperly. Statistical laws are valid only on average and do not hold for every individual case.

- 59.** (A) I, II, III, and IV only

Data can be classified qualitatively by attributes, quantitatively by numerical measurements, geographically by location, or chronologically by time. These four bases provide different ways to organize raw information for analysis. However, classification that considers exactly two characteristics simultaneously is specifically known as two-way classification; multi-way classification is the term used when three or more characteristics are used at once.

- 60.** (C) Statistics provides techniques to avoid comparison.

Statistics is specifically designed to facilitate, rather than avoid, comparisons between different sets of data. One of its primary functions is to provide rigorous techniques and methods that allow researchers to compare variables,

identify relationships, and observe differences across groups. By simplifying complex data and presenting facts in a definite numerical form, statistics makes meaningful comparison and analysis possible for various scientific and business purposes.

61. (A) I, II, IV, and V only

Several formulas are central to frequency distributions: class length is the difference between limits, mid-value is their average, and frequency density is class frequency divided by width. Percentage frequency is the ratio of class to total frequency multiplied by 100. However, relative frequency is class frequency divided by total frequency, not the inverse, making it a proportional measure of the data distribution.

62. (C) Presentation of facts

Statistical analysis typically follows a structured four-phase process: collection of numerical data, classification and tabulation to organize the information, mathematical analysis using various formulas, and finally, interpretation of the results to draw conclusions. While presentation of facts is a general function or outcome of statistics, it is not classified as one of the four distinct, chronological phases of data analysis.

63. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Primary data is generally more accurate and reliable because it is original information collected firsthand by the researcher for a specific investigation. Because it is gathered directly from respondents using tailored instruments like questionnaires, it is less likely to contain the errors or irrelevance that can sometimes affect secondary data, which was originally collected by others for different purposes.

64. (D) It is a quantity calculated directly from a sample to estimate the whole.

A parameter is a fixed, numerical value that describes a specific characteristic of an entire population, such as its mean or median. It is usually unknown and remains constant. In contrast, a value calculated from a sample to estimate a population parameter is known as

a statistic. Therefore, the definition of being calculated from a sample refers to a statistic, not a parameter.

65. (D) Assertion (A) is false, but Reason (R) is true.

In an inclusive class interval, both the stated lower and upper limits are included within the same class for counting purposes. It is in the exclusive type of class interval where the upper limit is excluded from the current class and recorded in the next sequential interval. Therefore, while the definition of inclusive intervals is correct, the assertion about excluding the upper limit is incorrect.

66. (C) Theoretical Base

Statistics recognizes four primary bases for classifying data: qualitative, quantitative, geographical, and chronological. These methods ensure that data is organized according to measurable or observable characteristics such as attributes, numerical variables, location, or time. Theoretical base is not a standard category used in statistical data classification, which relies instead on these empirical and descriptive foundations to structure information for analysis.

67. (A) Application of probability theory

In the banking industry, the formulation of credit policies is heavily dependent on the application of probability theory. By analyzing historical data regarding profitability, deposits, and credit ratios, banks use probability to assess the likelihood of future outcomes and risks. This statistical foundation helps management make informed decisions about lending and financial stability by predicting the behavior of various economic variables.

68. (D) It removes minor details to make data understandable and comparable.

The fundamental purpose of classifying raw data is to condense and simplify it. By organizing large amounts of haphazard information into homogeneous groups based on shared characteristics, researchers can eliminate unimportant details. This process transforms raw data into a structured format that is much easier to understand, analyze, and compare,

providing a clear foundation for subsequent statistical investigation and interpretation.

69. (D) Statistic

Any numerical measure or function that is calculated using observations from a sample is defined as a statistic. In the Zenith Bank scenario, the mean demand deposit calculated specifically for the selected 5,000 customers—a subset of the total population—is a statistic. This value serves as an estimate for the corresponding population parameter, which would represent the mean for all 500,000 customers.

70. (C) Evaluating entire populations is often too time-consuming and expensive.

Practical constraints are the most common reasons researchers choose sampling over a full census. Evaluating an entire population is frequently unfeasible because it requires enormous financial resources, extensive labor, and a significant amount of time. Sampling provides a representative, manageable group that allows for reliable conclusions to be drawn about the population while minimizing the associated costs and logistical challenges.

71. (B) Discrete Variable

In the Nexus Corp scenario, salaries are recorded as distinct, countable numerical values like 40, 45, and 50. Because these values are expressed numerically and represent specific points rather than a continuous range of measurements in this context, the variable salary is categorized as a discrete variable. This classification allows the HR department to use a discrete frequency distribution for their analysis.

72. (A) III, IV, I, II

The logical flow of statistical research begins with the collection of numerical data from primary or secondary sources. Next, this raw information is organized through classification and tabulation. Once structured, the data undergoes analysis where mathematical methods are applied. Finally, the researcher interprets the findings to draw conclusions, completing the four-phase cycle of a standard statistical investigation.

73. (A) Secondary data

Data obtained from existing records, such as those maintained by hospitals, is classified as secondary data. This is because the information was originally collected by the hospital for its own purposes and is now being repurposed by the medical agency for a new study. Unlike primary data, which is gathered firsthand, secondary data is second-hand information that has already been processed and stored.

74. (A) P-3, Q-2, R-1, S-4

The terminology of statistics reflects its multilingual heritage. The subject was referred to as status in Latin, statista in Italian, and statistik in German. In modern English, statistics is the term used for the entire field of study. These linguistic roots all point toward the historical importance of collecting and analyzing data for state and administrative functions across Europe.

75. (A) Geographical Base

When data is organized according to physical locations such as cities, states, or countries, it is based on a geographical classification base. This method allows researchers to observe regional variations and patterns within the data. By grouping observations like patient records by their location, it becomes easier to analyze how different geographical areas compare or are affected by specific variables under study.

76. (B) P-1, Q-2, R-3, S-4

Classification methods vary by the type of data: qualitative bases use attributes like intelligence; quantitative bases use numerical measures like income; geographical bases use location data like states; and chronological bases use time-related data like years. Correctly matching these bases with their respective examples is fundamental for organizing raw information into meaningful groups for structured statistical analysis and comparative studies.

77. (B) 1.2

Frequency density is calculated by dividing the class frequency by the class width. In this manufacturing scenario, the frequency for the 20-30 gram class interval is 12. The class width is 10. Dividing the frequency of 12 by the width of 10 yields a frequency density of 1.2,

representing the concentration of observations within that specific interval.

78. (A) P-2, Q-3, R-1, S-4

Various statistical measures are calculated using specific formulas: frequency density is the ratio of frequency to width; relative frequency is the ratio of frequency to the total; mid-value is the average of class limits; and percentage frequency is the relative frequency multiplied by 100. Mastery of these formulas is essential for accurately processing and summarizing data within a frequency distribution table.

79. (B) Classification

Classification is the essential statistical process where large, haphazard data sets are condensed into manageable, homogeneous groups. By removing unimportant details and arranging observations according to common characteristics, such as religion or sex, the university can simplify the data for better understanding. This step is crucial for transforming raw information into a structured format suitable for detailed analysis and meaningful comparison.

80. (D) Statistic - A quantity or function of the observations of a data sample

A statistic is accurately defined as a numerical measure or value derived from a sample of data. It is used to describe sample characteristics and estimate unknown population parameters. In contrast, census involves the entire population, and tabulation is a method of presenting already classified data in a table, not the first stage of an investigation, which is always data collection.

CHAPTER 02

Sampling Techniques

NODIA

May/June 2016

1. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): A statistic is a characteristic of a sample, whereas a parameter is a population characteristic.

Reason (R): Statisticians use lower case Roman letters to denote sample statistics and Greek or Capital letters to denote population parameters.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2023

2. Identify the correct statement regarding stratified sampling approaches.

- (A) It relies on selecting a random starting point and picking every n th name thereafter.
- (B) Equal numbers of elements are drawn from each stratum regardless of proportions.
- (C) Elements are drawn from each stratum based on their weights in the population.
- (D) The entire population is divided into clusters for complete enumerative analysis.

May/June 2020

3. Which of the following pairs correctly matches the characteristic with its corresponding symbol for a population?

- (A) Mean – $\bar{x}$
- (B) Size – n
- (C) Standard Deviation – σ
- (D) Parameter – s

Oct/Nov 2012

4. What is the primary purpose of constructing a sampling distribution?

- (A) To reduce the standard deviation of the original population parameters significantly.
- (B) To select a biased sample representing the strongest opinions in the population.
- (C) To show the distribution of all possible statistic values from specific samples.
- (D) To eliminate the need for calculating the finite population multiplier entirely.

May/June 2005

5. In simple random sampling, what characterises the probability of selection?

- (A) Elements are selected at a consistent level measured in time, order, or space.
- (B) Each sample and population item has an equal probability of being selected.
- (C) Equal numbers of elements are drawn from each stratum regardless of weights.
- (D) Individual clusters are assumed to be representative of the whole population.

Oct/Nov 2025

6. Consider the following statements about standard error:

- I. It indicates the size of the chance error and the accuracy we are likely to get if we use the sample statistic to estimate a population statistic.
- II. A mean with a higher standard deviation is considered a better estimator than one with a smaller standard deviation.

Which of the above statement(s) is/are correct?

- (A) I only
- (B) II only
- (C) Both I and II
- (D) Neither I nor II

May/June 2019

7. What is a sample?

- (A) The complete enumeration of all items

that are to be studied.

- (B) A part or subset of the population selected to represent the entire group.
- (C) A probability distribution of the means of all possible groups of a given size.
- (D) A measure of the dispersion of the means around the population mean.

Oct/Nov 2008

8. Consider the following statements regarding the types of populations:
- I. The population of all prime numbers is a truly infinite population.
 - II. A finite population is treated as infinite when it cannot be enumerated in a reasonable period of time.
- Which of the above statement(s) is/are correct?
- (A) I only
 - (B) II only
 - (C) Both I and II
 - (D) Neither I nor II

May/June 2010

9. A market research team is attempting to determine the average number of television sets per household in a large city. They use a city map, divide the territory into blocks, and choose a certain number of blocks for interviewing. Every household in each selected block is interviewed. Which sampling procedure does this represent?
- (A) Stratified Sampling
 - (B) Cluster Sampling
 - (C) Systematic Sampling
 - (D) Judgement Sampling

Oct/Nov 2016

10. Match the statistical concepts in List I with their descriptions in List II.
- List I: (Concept)
- P. Census
 - Q. Sample
 - R. Parameter
 - S. Statistic
- List II: (Description)
- 1. Value describing the characteristics of a population
 - 2. Measure describing the characteristics of a sample
 - 3. Measurement or examination of every element in the population

4. A portion of the elements chosen for direct examination or measurement

- (A) P-3, Q-4, R-1, S-2
- (B) P-4, Q-3, R-2, S-1
- (C) P-3, Q-1, R-4, S-2
- (D) P-2, Q-4, R-1, S-3

May/June 2022

11. Which of the following is NOT a characteristic of a sampling distribution?
- (A) It allows statisticians to take meaningful and cost-effective population samples.
 - (B) It can be partially described by its calculated mean and standard deviation.
 - (C) It is obtained theoretically by taking all possible samples of a given size.
 - (D) It requires data from every population member to be formed with accuracy.

Oct/Nov 2007

12. Identify the incorrect statement regarding the methods of selecting samples.
- (A) Probability sampling ensures every item in the population has a chance of being chosen.
 - (B) Judgement sampling uses personal expertise to identify specific items for inclusion.
 - (C) Judgement samples allow for rigorous statistical analysis similar to random samples.
 - (D) Selection by judgement sampling is based on previous experience with the population.

May/June 2014

13. A company wishes to interview a sample of 10 employees from a population of 100 employees. They assign each employee a two-digit number from 00 to 99 and use a random digits table to select the sample.
- If the table yields the numbers 15, 09, 41, 74, 00, 59, 69, 71, 35, 67, what sampling method is exclusively applied to generate this result?
- (A) Simple Random Sampling
 - (B) Stratified Sampling
 - (C) Cluster Sampling
 - (D) Systematic Sampling

Oct/Nov 2019

14. What is the definition of "sampling with replacement"?

- (A) A procedure where sampled items are not returned to the population after picking.
- (B) A process of selecting groups that are similar to each other to replace data.
- (C) A procedure where items are returned so they can be selected more than once.
- (D) A theoretical concept of approximating a finite population to an infinite one.

May/June 2011

15. How is the “standard error” defined in the context of sampling?
- (A) The absolute difference between the sample mean and the median of the population.
 - (B) The variation or error resulting exclusively from non-random sampling.
 - (C) The ratio of the sample standard deviation to the population size.
 - (D) The standard deviation of the sampling distribution of a statistic.

Oct/Nov 2024

16. Which of the following terms describes a characteristic of a population?
- (A) Parameter
 - (B) Statistic
 - (C) Sample size
 - (D) Sampling error

May/June 2025

17. Match the sampling concepts in List I with their corresponding definitions in List II.
- List I: (Concept)
- P. Strata
 - Q. Clusters
 - R. Random Digits
 - S. Judgement Sampling
- List II: (Definition)
1. Groups similar to each other, although having wide internal variation.
 2. A method based on personal experience to select a pilot sample.
 3. A table of scrambled numbers used to select items from a large population.
 4. Groups formed such that each group is relatively homogeneous, but wide variability exists among separate groups.
- (A) P-4, Q-1, R-3, S-2
 - (B) P-1, Q-4, R-2, S-3
 - (C) P-4, Q-1, R-2, S-3
 - (D) P-3, Q-2, R-1, S-4

Oct/Nov 2005

18. Consider the following statements regarding judgement sampling:
- I. It can be used as a pilot or trial sample to decide how to take a random sample later.
 - II. It allows for rigorous statistical analysis that cannot be done with probability samples.
 - III. If it loses a significant degree of representativeness, it purchases convenience at a high price.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

May/June 2013

19. Consider the following statements regarding statistical inference and sampling methods:
- I. Systematic, stratified, and cluster sampling attempt to approximate simple random sampling.
 - II. Methods developed for their precision, economy, or physical ease are assumed to be data based on simple random sampling.
 - III. The process of making statistical inferences is based on the principles of random sampling.
 - IV. A well-designed cluster sampling procedure is often more expensive than simple random sampling.
 - V. Stratified samples accurately reflect characteristics of the population when properly designed.
- Which of the above statement(s) is/are correct?
- (A) I, II, III, and V only
 - (B) II, III, IV, and V only
 - (C) I, III, IV, and V only
 - (D) I, II, IV, and V only

Oct/Nov 2021

20. Consider the following statements about systematic sampling:
- I. Elements are selected from the population at a consistent level measured in time, order, or space.
 - II. Each sample has an equal chance of being selected, just like in simple random sampling.

III. It introduces a probability of an error into the sampling process if the elements lie in a sequential pattern.

IV. It may require less time and sometimes results in lower costs than the simple random sample method.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) I, III, and IV only
- (C) II, III, and IV only
- (D) I, II, III, and IV

May/June 2017

21. Consider the following statements regarding the sampling distribution of the mean:

- I. The mean of the sample means is the same as the population mean whenever simple random sampling is used.
- II. The standard deviation of the sampling distribution is equal to the population standard deviation divided by the square root of the sample size.
- III. The sample means typically have a larger spread than the population values.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

Oct/Nov 2015

22. A researcher conducts a survey on a proposed agricultural policy. Since farmers are the most affected, the researcher interviews farmers across different rural districts and reports that 90 percent are in favour of the policy. Based on sampling principles, how is this sample characterised?

- (A) A random probability sample that determines public opinion reliability.
- (B) A biased sample comprising individuals with strong feelings on the issue.
- (C) A stratified random sample reflecting proportional weighting of districts.
- (D) An unbiased judgement sample acting as a preliminary pilot survey test.

May/June 2024

23. What is the most appropriate condition for using cluster sampling over stratified sampling?

- (A) When the population is divided into relatively homogenous groups with wide variation between groups.
- (B) When the population requires each item to be weighted according to its proportion of the total population.
- (C) When each element lies in a sequential pattern making simple random sampling inappropriate.
- (D) When there is considerable variation within each group, but the groups are essentially similar.

Oct/Nov 2009

24. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): In systematic sampling, choosing a specific day like Friday to study people eating out may cause a problem.

Reason (R): The chosen system may introduce an error because Friday is the beginning of the weekend, resulting in a higher likelihood of people eating out.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2015

25. A talent agency has four dancers (P, Q, R, S) participating in an audition. The agency wants a sample of two dancers at a time to perform a duet. If simple random sampling without replacement is used, what is the probability that dancer R will be in any given sample?

- (A) $1/6$
- (B) $1/4$
- (C) $1/2$
- (D) $2/3$

Oct/Nov 2013

26. Why is sampling generally preferred over conducting a complete census in business decision-making?

NODIA

- (A) Census taking creates significant standard errors that invalidate study results.
- (B) Sampling minimizes the risks associated with drawing biased group conclusions.
- (C) A complete enumeration causes non-normal distributions in the acquired datasets.
- (D) Time and cost constraints make contact with every population item impractical.

May/June 2008

27. A quality control manager calculates the median weight of 50 randomly selected components produced in a manufacturing process. The distribution of these median weights from all possible samples of size 50 is best described as:
- (A) The sampling distribution of the median.
 - (B) The population distribution of the components.
 - (C) The sampling distribution of the proportion.
 - (D) The theoretical distribution of the variance.

Oct/Nov 2017

28. All of the following are main types of random sampling EXCEPT:
- (A) Judgement Sampling
 - (B) Simple Random Sampling
 - (C) Systematic Sampling
 - (D) Cluster Sampling

May/June 2006

29. Which of the following pairs incorrectly matches a sampling method with its operational mechanism?
- (A) Systematic Sampling – Choosing a random starting point and selecting every twentieth name.
 - (B) Cluster Sampling – Dividing the territory into blocks and interviewing every household in selected blocks.
 - (C) Simple Random Sampling – Selecting experts to determine the optimal terrain for oil drilling.
 - (D) Stratified Sampling – Dividing the population into age groups to study consumption habits.

Oct/Nov 2020

30. Which pair appropriately matches the sampling method with its characteristic division of the population?
- (A) Systematic Sampling – Divides population into strata based on age or income.
 - (B) Cluster Sampling – Selects items at uniform intervals in time or space.
 - (C) Simple Random Sampling – Divides the population into blocks for complete enumeration.
 - (D) Stratified Sampling – Divides population into relatively homogenous groups.

May/June 2009

31. Which of the following statements correctly applies the formula for calculating standard normal variable z ?
- (A) $z = (\text{sample mean} + \text{population mean}) / \text{standard error}$
 - (B) $z = (\text{population mean} - \text{sample mean}) / \text{population standard deviation}$
 - (C) $z = (\text{sample mean} - \text{population mean}) / \text{standard error}$
 - (D) $z = \text{standard error} / (\text{sample mean} - \text{population mean})$

Oct/Nov 2018

32. How is the “Central Limit Theorem” defined?
- (A) A theorem stating that the standard error is inversely proportional to population size.
 - (B) A rule stating the sampling distribution of the mean approaches normality as n grows.
 - (C) A rule stating that populations with wide variations must be divided into strata first.
 - (D) A formula used to derive the finite population multiplier for extremely large samples.

May/June 2023

33. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
- Assertion (A): Increasing the sample size from 3 to 4 decreases the standard deviation of a sampling distribution.
- Reason (R): Increasing the sample size changes the standard deviation of the items in the

original population.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2010

34. Consider the following statements about the normal approximation of binomial distributions:

- I. If $X \sim \text{Bin}(n, p)$, then $Z = (X - np) / \sqrt{npq}$ tends to standard Normal Distribution as n approaches infinity.
- II. If $X \sim P(\lambda)$, then $Z = (X - \lambda) / \sqrt{\lambda}$ tends to standard Normal Distribution.
- III. A sample size of 700 coin tosses is large enough to use the central limit theorem.
- IV. A shipment of 400 tools where 2% are defective cannot be analyzed using the central limit theorem.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, III, and IV

May/June 2007

35. A company's accounts have a mean of 150 and a standard error of 10 for samples of a certain size. What is the z-value if the sample mean is 160?

- (A) -1.0
- (B) 0.1
- (C) 1.0
- (D) 10.0

Oct/Nov 2014

36. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): It seldom pays to take excessively large samples to decrease standard error indefinitely.

Reason (R): Because the sample size (n)

is in the denominator under a square root, standard error decreases at a diminishing rate as n increases.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2021

37. What causes the “chance error” that results in variability among sample means?

- (A) The difference between the sample and population means due to the choice of samples.
- (B) The deliberate selection of unrepresentative elements by the researcher.
- (C) The use of a sequential pattern in systematic sampling.
- (D) The failure to use the finite population multiplier when required.

Oct/Nov 2022

38. Consider the following statements regarding sampling from non-normal populations:

- I. Many populations encountered in practice are not normally distributed.
- II. Even for non-normal populations, the mean of the sampling distribution equals the population mean.
- III. As the sample size increases, the shape of the sampling distribution moves further away from a bell shape.
- IV. A sample of size 3 from a highly skewed population will result in a perfectly normal sampling distribution.
- V. Enlarging the population size and taking larger samples demonstrates how quickly the sampling distribution approaches normality.

Which of the above statement(s) is/are correct?

- (A) I, II, and V only
- (B) II, III, and IV only
- (C) I, II, IV, and V only
- (D) I, III, and V only

May/June 2018

39. What best describes the relationship between sample size and standard error?
- (A) As sample size increases, standard error increases in a proportional manner.
 - (B) The absolute size of the sample has no effect on the standard error values.
 - (C) Standard error remains constant as long as the population variance is steady.
 - (D) As sample size increases, standard error decreases at a diminishing rate.

Oct/Nov 2011

40. What does the term $\mu_{\bar{x}}$ (mu subscript x-bar) denote in the context of a sampling distribution?
- (A) Standard error of the mean
 - (B) Sample size
 - (C) Sampling fraction
 - (D) Mean of the sampling distribution

May/June 2012

41. Consider the following statements about the finite population multiplier:
- I. It is applied when the population is of stated or limited size.
 - II. It is used when sampling is done with replacement.
 - III. It is given by the formula $\sqrt{((N - n) / (N - 1))}$.
 - IV. It is generally not needed when the sampling fraction is less than 0.05.
 - V. It causes any decrease in the standard error to increase the precision of the sample mean estimate.
- Which of the above statement(s) is/are correct?
- (A) I, II, III, and V only
 - (B) I, III, IV, and V only
 - (C) II, III, IV, and V only
 - (D) I, II, IV, and V only

Oct/Nov 2006

42. Arrange the following steps in the chronological order of producing a theoretical sampling distribution of the mean.
- I. Produce a distribution of all the means from every sample taken.
 - II. Calculate the mean and standard deviation for each of these samples.
 - III. Take all possible samples of a specific size from the population distribution.

IV. Identify the population distribution.

- (A) IV, III, II, I
- (B) III, II, I, IV
- (C) IV, II, III, I
- (D) III, IV, I, II

Oct/Nov 2025

43. Consider the following statements about the distribution of annual earnings of bank tellers:
- I. If a random sample of 30 tellers is taken, the sampling distribution of the means will closely approximate a normal distribution.
 - II. To find the probability that earnings average more than a specific amount, the area representing that amount must be calculated using the z-value.

Which of the above statement(s) is/are correct?

- (A) I only
- (B) II only
- (C) Both I and II
- (D) Neither I nor II

May/June 2005

44. Consider the following statements regarding the Central Limit Theorem (CLT):
- I. It assures that the sampling distribution of the mean approaches normal as the sample size increases.
 - II. The mean of the sampling distribution of the mean will equal the population mean only if the original population is normal.
 - III. It permits the use of sample statistics to make inferences about population parameters without knowing the shape of the frequency distribution.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

Oct/Nov 2012

45. A researcher audits randomly selected credit card accounts with a population mean balance of Rs. 112 and standard deviation of Rs. 56. For a sample size of 50, the standard error is calculated as 7.920. To find the probability that the sample average is below Rs. 100, the z-value is calculated as -1.52. The table

probability for 1.52 is 0.4357. What is the probability that the balance is below Rs. 100?

- (A) 0.5000
- (B) 0.4357
- (C) 0.0643
- (D) 0.9357

May/June 2023

46. A finite population of 5 young boys (A, B, C, D, E) has heights of 160, 162, 164, 170, and 156 cm respectively.

If the population mean is 162.40 cm, what will be the mean of the sampling distribution of the mean for all possible samples of size 3?

- (A) 160.00 cm
- (B) 162.40 cm
- (C) 163.33 cm
- (D) 164.66 cm

Oct/Nov 2014

47. Arrange the steps necessary to determine the probability of a sample average falling within a specific range using the central limit theorem.

- I. Look up the corresponding probability area in a statistical table.
- II. Divide the difference by the standard error to find the z-value.
- III. Calculate the standard error of the mean from the population standard deviation.
- IV. Determine the distance between the sample mean and the population mean.

- (A) III, IV, II, I
- (B) IV, III, II, I
- (C) III, II, IV, I
- (D) IV, II, III, I

May/June 2019

48. A bank calculates that its individual savings accounts are normally distributed with a mean of Rs. 2,000 and a standard deviation of Rs. 600. If the bank takes a random sample of 100 accounts, what is the standard error of the mean?

- (A) Rs. 6
- (B) Rs. 60
- (C) Rs. 100
- (D) Rs. 600

Oct/Nov 2006

49. What happens to the precision with which the sample mean estimates the population mean as the standard error decreases?

- (A) The precision increases.
- (B) The precision remains unchanged.
- (C) The precision decreases proportionally.
- (D) The precision approaches zero.

May/June 2021

50. What is the most significant practical advantage of the central limit theorem for statisticians?

- (A) It eliminates the need to calculate standard errors for sample sizes under 30.
- (B) It guarantees that any sample drawn will perfectly match the population mean.
- (C) It allows normal approximation of the sampling distribution for samples $n \geq 30$.
- (D) It replaces the finite population multiplier for populations of any given size.

Oct/Nov 2010

51. When calculating the finite population multiplier, which of the following statements is NOT accurate?

- (A) The multiplier is used when sampling without replacement from a finite population.
- (B) It takes the mathematical form of the square root of $(N - n)$ over $(N - 1)$.
- (C) It reduces the standard error when the population is small relative to sample size.
- (D) It increases the standard error when the population is very large relative to n .

May/June 2022

52. Consider the following statements about standard probabilities:

- I. The standard normal variable z provides the probability between 0 and a given value.
- II. When values have the same sign (plus or minus), the smaller value in the table is added to the bigger one.
- III. When values have opposite signs, the values obtained from the table are added.
- IV. The standard error of the mean formula uses the population standard deviation divided by the square root of the sample size.

Which of the above statement(s) is/are correct?

- (A) I, II, and IV only
- (B) I, III, and IV only

- (C) II, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2016

53. Identify the incorrect statement regarding probability values and standard normal variables.
- (A) The standard normal variable table gives the probability that variable z is between 0 and the given value.
- (B) The minus sign is ignored when looking up the z -value probability in the table.
- (C) The probability that a variable is between 0.96 and 1.54 is calculated by adding their respective table values.
- (D) If the values have the same sign, you subtract the smaller value in the table from the bigger one.

May/June 2014

54. The annual earnings of bank tellers have a mean of Rs. 19,000 and a standard deviation of Rs. 2,000. For a sample of 30 tellers, what is the standard error of the mean?
- (A) Rs. 66.66
(B) Rs. 365.16
(C) Rs. 500.00
(D) Rs. 2000.00

Oct/Nov 2019

55. The total tyre life for five motorcycle owners is 36 months, making the population mean 7.2 months. When calculating all possible sample means of size three from this non-normal population, what will be the mean of this sampling distribution?
- (A) 3.6 months
(B) 7.2 months
(C) 12.0 months
(D) 10.8 months

May/June 2011

56. Match the population scenarios in List I with their appropriate Sample Statistic in List II as described in different sampling distributions.

List I: (Scenario)

- P. Water in a River (10-one litre containers)
Q. All professional basketball teams (Groups of 5 players)
R. All parts produced in a manufacturing process (50 of each part)
S. Number of TV households in a country

List II: (Statistic)

1. Median height
 2. Proportion defective
 3. Treated as if they were infinite due to very large size
 4. Mean number of parts of mercury per million parts of water
- (A) P-4, Q-1, R-2, S-3
(B) P-1, Q-4, R-3, S-2
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2024

57. Consider the following outcomes of increasing a sample size from 10 to 100 with a population standard deviation of 100:
- I. The standard error drops from 31.63 to 10.
II. The standard error decreases to exactly one-tenth of its original value.
III. The calculation demonstrates the law of diminishing returns in sampling.
- Which of the above statement(s) is/are correct?
- (A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2017

58. A sample yields two z -values of -0.96 and 1.54 . A probability table gives the area for 0.96 as 0.3315 and for 1.54 as 0.4382 . What is the probability that the variable lies between -0.96 and 1.54 ?
- (A) 0.1067
(B) 0.3315
(C) 0.4382
(D) 0.7697

Oct/Nov 2005

59. Identify the incorrect statement regarding the application of the Central Limit Theorem.
- (A) A sample does not have to be very large for the sampling distribution of the mean to approach normal.
(B) Statisticians typically use the normal distribution as an approximation whenever the sample size is at least 30.
(C) The sampling distribution approaches normality only if the original population distribution is perfectly symmetrical.
(D) The sampling distribution of the mean can

be nearly normal with samples of even half the size of 30.

May/June 2013

60. How does the sampling distribution of the mean behave when drawn from a non-normal population as the sample size increases?
- (A) It accurately mirrors the non-normal shape of the population distribution.
 - (B) It approaches normality regardless of the shape of the population distribution.
 - (C) It approaches a uniform distribution across all possible values.
 - (D) It develops a skewed shape directly proportional to the sample size.

Oct/Nov 2021

61. Which of the following most accurately describes the term "Statistic"?
- (A) Values that describe the true characteristics of an infinite population.
 - (B) The measurement or examination of every element in the population.
 - (C) Measures describing the characteristics of a sample.
 - (D) A probability distribution of the means of all possible samples.

May/June 2024

62. Identify the correct statement regarding sampling without replacement.
- (A) No member of the population can appear in the sample more than once.
 - (B) Sampled items are returned to the population after being picked.
 - (C) Some members of the population can appear in the sample more than once.
 - (D) It is an identical procedure to sampling with replacement when populations are strictly under 50 items.

Oct/Nov 2009

63. What formula denotes the measure of precision (standard error of the mean) for an infinite population?
- (A) $\sigma_{\bar{x}} = \sigma / \sqrt{n}$
 - (B) $\sigma_{\bar{x}} = \sigma / \sqrt{N}$
 - (C) $\sigma_{\bar{x}} = n / \sqrt{\sigma}$
 - (D) $\sigma_{\bar{x}} = \sigma / n$

May/June 2015

64. Which of the following is NOT an example of a finite population?

- (A) The population of all prime numbers.
- (B) The employees in a given company.
- (C) The clients of a city social-services agency.
- (D) A day's production in a given manufacturing plant.

Oct/Nov 2013

65. Identify the correct rule regarding the use of the finite population multiplier.
- (A) It must be used whenever the sampling fraction (n/N) exceeds 0.01.
 - (B) The multiplier is always greater than 1, thereby increasing the standard error.
 - (C) When the sampling fraction is less than 0.05, the finite population multiplier need not be used.
 - (D) It is primarily designed for infinite populations where elements are not replaced.

May/June 2008

66. Consider the following regarding the relationship between sample size and standard error:
- I. The dispersion among sample means decreases if standard error becomes smaller.
 - II. As the standard error decreases, the precision with which the sample mean can be used to estimate the population mean increases.
 - III. Increasing a sample size from 10 to 100 drops the standard error to exactly one-tenth of its original value.
 - IV. The standard error varies inversely with the square root of the sample size.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III only
 - (B) II, III, and IV only
 - (C) I, II, and IV only
 - (D) I, III, and IV only

Oct/Nov 2017

67. Consider the following statements relating to statistical inference:
- I. It is the process of making inferences about populations from information contained in samples.
 - II. It requires taking a complete census whenever the population is finite.
 - III. It assumes that the entire sample we are

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talking about is based on simple random sampling.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

May/June 2006

68. From a large shipment of 400 tools, 2% are known to be defective. To find the probability of 3% or more being defective using the normal approximation to the Poisson distribution, the mean (λ) is calculated as np. What is the value of λ ?
- (A) 2
 - (B) 8
 - (C) 12
 - (D) 24

Oct/Nov 2020

69. Which of the following does NOT represent the theoretical framework of simple random sampling?
- (A) It requires that each possible sample has an equal probability of being picked.
 - (B) It acts as the basis for the processes of making statistical inferences.
 - (C) It works well with small groups but presents problems with very large populations if slips of paper are used.
 - (D) It demands that personal experience uniquely dictates the inclusion of sampling units.

May/June 2009

70. Match the sampling terms in List I with their key descriptions in List II.

List I: (Term)

- P. Standard error
- Q. Sampling error
- R. Infinite population
- S. Finite population multiplier

List II: (Description)

1. Error or variation among sample statistic due to the elements chosen
2. A population in which it is theoretically impossible to observe all elements
3. Standard deviation of the sampling distribution of a statistic
4. Factor used to correct the standard error

for studying a limited-size population

- (A) P-3, Q-1, R-2, S-4
- (B) P-1, Q-3, R-4, S-2
- (C) P-3, Q-2, R-1, S-4
- (D) P-4, Q-1, R-3, S-2

Oct/Nov 2018

71. A population consists of 20 textile companies experiencing excessive labour turnover, with a standard deviation of 75 employees. If a sample of 5 companies is taken without replacement, what finite population multiplier will be applied to the standard error calculation?
- (A) $\sqrt{(15 / 20)}$
 - (B) $\sqrt{(5 / 20)}$
 - (C) $\sqrt{(20 / 19)}$
 - (D) $\sqrt{(15 / 19)}$

May/June 2023

72. Consider the following statements regarding statistical equations:

- I. The sampling distribution has a standard deviation equal to the population standard deviation divided by the square root of the sample size.
- II. The distance of the sample mean from the population mean is determined by dividing the difference by the standard error.
- III. The central limit theorem applies to samples with at least 30 observations.
- IV. The finite population multiplier is defined as $\sqrt{((N-n)/(N-1))}$.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) I, II, and IV only
- (C) II, III, and IV only
- (D) I, III, and IV only

Oct/Nov 2010

73. Match the descriptive statements in List I with their designated terms in List II.

List I: (Description)

- P. Values that describe the characteristics of a population
- Q. Method of sampling at a uniform interval measured in time, order, or space
- R. Method where items have an equal chance of being chosen
- S. Distribution of the means of all possible samples of a given size

List II: (Term)

1. Systematic sampling
2. Random sampling
3. Parameters
4. Sampling distribution of the mean
- (A) P-3, Q-1, R-2, S-4
- (B) P-1, Q-2, R-4, S-3
- (C) P-3, Q-2, R-1, S-4
- (D) P-4, Q-1, R-3, S-2

May/June 2007

74. Which of the following pairs incorrectly correlates a probability/statistical condition with its mathematical effect?
- (A) Sampling fraction $n/N < 0.05$ – The finite population multiplier is omitted.
 - (B) Sample size n increases – The standard error of the mean value decreases.
 - (C) Two opposite signed z -values – The corresponding table probabilities are added.
 - (D) Population N is large relative to n – The finite population multiplier value decreases.

Oct/Nov 2022

75. Consider the following statements about the sampling fraction:
- I. Statisticians refer to the fraction n/N as the sampling fraction.
 - II. When the sampling fraction is very small, the finite population multiplier approaches 0.
- Which of the above statement(s) is/are correct?
- (A) I only
 - (B) II only
 - (C) Both I and II
 - (D) Neither I nor II

May/June 2018

76. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
- Assertion (A): To make standard error smaller, one must focus on the absolute size of the sample rather than the fraction of the population sampled.
- Reason (R): When the sampling fraction is less than 0.05, the standard error depends solely on the sample size (n) and the constant population standard deviation (σ).

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2011

77. Consider the following definitions of sampling terms:
- I. Census involves the measurement of every element in the population.
 - II. Stratified sampling draws equal numbers of elements from each stratum, weighing the results if required.
 - III. Clusters are similar to each other, although the groups themselves have wide internal variation.
 - IV. Random sampling ensures every item in the entire population is guaranteed to be in the sample.
 - V. Judgement sampling relies on personal knowledge to identify items for inclusion.
- Which of the above statement(s) is/are correct?
- (A) I, II, III, and V only
 - (B) II, III, IV, and V only
 - (C) I, III, IV, and V only
 - (D) I, II, IV, and V only

May/June 2012

78. Identify the incorrect statement regarding the standard error and sample size relationship.
- (A) To make the standard error smaller, it is necessary to make the sample size larger.
 - (B) The measure of sampling precision depends only on the proportion of the population sampled.
 - (C) It is the absolute size of the sample that determines sampling precision.
 - (D) Sampling more items will decrease the standard error, exhibiting diminishing returns.

Oct/Nov 2006

79. A researcher analyzes a population of 1,000 items and takes a sample of 20 items. They calculate the finite population multiplier as

approximately 0.99. What is the practical implication of this result?

- (A) The standard error will be reduced by 99%, making the sample extremely precise.
- (B) The multiplier of 0.99 would have little effect on the calculation of the standard error of the mean.
- (C) The sample size must be quadrupled to reach the threshold of 0.05 sampling fraction.
- (D) The population must be treated as strictly infinite because N exceeds 500.

May/June 2025

80. Consider the following statements regarding statistical principles:

- I. A statistic is a characteristic of a population.
- II. As a general rule, it is not necessary to include a finite population multiplier when the sampling fraction is less than 0.05.
- III. The standard error of the mean decreases with an increase in sample size.
- IV. To perform a complete enumeration, one would need to examine every item in a population.
- V. The sampling fraction compares the size of a sample to the size of the population.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV only
- (B) II, III, IV, and V only
- (C) I, III, IV, and V only
- (D) I, II, IV, and V only

ANSWERS

1. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

Statistics describe specific samples while parameters represent entire populations. These definitions are distinct and fundamental to data analysis. Roman letters typically denote sample statistics and Greek letters denote population parameters. While both statements are factually correct, the symbolic notation system is a convention rather than the underlying logical reason for the definitional difference between these two categories.

2. (C) Elements are drawn from each stratum based on their weights in the population.

Proportional stratified sampling ensures that the sample accurately reflects the demographic composition of the target population. By dividing the population into homogenous strata and drawing elements based on their relative size or weight, researchers improve representativeness. This method reduces sampling error compared to simple random sampling because it accounts for the specific proportions within each identified sub-group.

3. (C) Standard Deviation – σ

Population characteristics are represented by specific mathematical symbols known as parameters. The Greek letter sigma is the standard notation for population standard deviation, whereas lowercase s denotes sample standard deviation. Similarly, the population mean uses the symbol mu, while the sample mean is represented by x-bar. Understanding these distinct symbols is essential for interpreting statistical formulas and data results.

4. (C) To show the distribution of all possible statistic values from specific samples.

A sampling distribution is a theoretical probability distribution of a specific statistic, such as the mean, obtained from every possible sample of a given size. It serves as a bridge between sample data and population parameters. This tool allows statisticians to understand the

variability of sample statistics and calculate the probability of observing specific results under known population conditions.

5. (B) Each sample and population item has an equal probability of being selected.

Simple random sampling is a fundamental probability method where every individual element in the population has an identical chance of selection. Furthermore, every possible combination or sample of a specific size has the same probability of being chosen. This approach eliminates selection bias, providing a representative foundation for making statistical inferences and generalizations about the broader population being studied in research.

6. (A) I only

The standard error measures the dispersion of sample means around the population mean, reflecting the accuracy of a statistic. A smaller standard error indicates a more precise estimator, meaning the sample mean is likely closer to the true population value. High standard deviations actually increase the standard error, making the estimator less reliable. Therefore, only the first statement accurately describes precision.

7. (B) A part or subset of the population selected to represent the entire group.

A sample is a representative portion of a larger population chosen for study when examining every element is impractical. By analyzing this subset, researchers can infer characteristics of the entire group. Effective sampling requires that the subset accurately mirrors the diversity and properties of the population to ensure that the resulting statistical conclusions are valid and applicable to the whole.

8. (C) Both I and II

Infinite populations consist of elements that cannot be fully counted, such as all prime numbers. In practical statistics, finite populations are often treated as infinite if they are so large that complete enumeration is

impossible within a reasonable timeframe. Both statements correctly identify the theoretical and practical applications of population classification, which dictates the formulas and multipliers used during the sampling process.

9. (B) Cluster Sampling

Cluster sampling involves dividing a large population into heterogeneous groups, often based on geographic areas like city blocks. Researchers select several blocks randomly and interview every household within those chosen clusters. This method is highly cost-effective for large-scale surveys compared to simple random sampling. It assumes that each cluster is a representative microcosm of the population, facilitating efficient data collection in the field.

10. (A) P-3, Q-4, R-1, S-2

Statistical terminology distinguishes between population and sample measurements. A census involves examining every member of a population, while a sample is a smaller subset used for analysis. Characteristics of the population are called parameters, whereas characteristics derived from samples are called statistics. Correctly matching these concepts is vital for understanding research design and the relationship between observed data and broader theoretical conclusions.

11. (D) It requires data from every population member to be formed with accuracy.

A sampling distribution is a theoretical construct based on the means of all possible samples of a specific size. It does not require a census or data from every population member. Instead, it relies on mathematical theorems like the central limit theorem. This distribution allows statisticians to make accurate predictions about population parameters using only the data from a single, well-selected sample.

12. (C) Judgement samples allow for rigorous statistical analysis similar to random samples. Judgement sampling relies on the subjective expertise of a researcher to select specific units for a sample. While useful for pilot studies, this non-probability method lacks the mathematical basis of random sampling. Consequently, it does not allow for rigorous statistical analysis or the calculation of confidence intervals.

Unlike random samples, judgement samples cannot provide a measurable degree of certainty regarding the population parameters.

13. (A) Simple Random Sampling

Simple random sampling ensures that every member of the population has an equal chance of being selected. Using a random digits table to choose employees from a numbered list is a standard method to achieve this. By assigning numbers and following a randomized sequence, the company avoids bias and ensures that the selection of the ten employees is entirely based on mathematical chance.

14. (C) A procedure where items are returned so they can be selected more than once.

Sampling with replacement is a technique where each selected unit is returned to the population before the next unit is drawn. This ensures that the population size remains constant and that the same item can be chosen multiple times. In this procedure, the probability of selection for each item remains identical throughout the process, which is a key statistical assumption.

15. (D) The standard deviation of the sampling distribution of a statistic.

The standard error represents the standard deviation of all possible sample means for a given sample size. It measures the amount of variation or “chance error” expected between the sample statistic and the true population parameter. A lower standard error signifies greater precision in the estimation. This value is critical for determining the reliability of sample results and for constructing confidence intervals.

16. (A) Parameter

A parameter is a numerical value that describes a specific characteristic of a whole population, such as the mean or standard deviation. Parameters are usually fixed but unknown values that researchers attempt to estimate using sample statistics. Identifying parameters is the primary goal of statistical inference, as they provide the true measurement of the population group being studied in any project.

17. (A) P-4, Q-1, R-3, S-2

Stratified sampling involves creating homogeneous groups with high variability between groups, whereas cluster sampling uses heterogeneous groups that are similar to each other. Random digits tables facilitate unbiased selection in simple random sampling. Judgement sampling relies on personal expertise for pilot studies. These definitions clarify the distinctions between probability and non-probability sampling techniques used in research to gather and analyze data.

18. (C) I and III only

Judgement sampling is a non-probability technique often utilized for small pilot samples or when specialized expertise is needed. While convenient and helpful for preliminary testing, it lacks the objective randomness required for formal statistical analysis. If the researcher's judgement is flawed, the sample becomes unrepresentative, leading to potentially biased results. Therefore, convenience must be weighed against the risk of losing representativeness.

19. (A) I, II, III, and V only

Probability sampling methods like systematic, stratified, and cluster sampling are designed to achieve precision and economy while approximating simple random sampling. Statistical inference relies on these random principles to generalize results. However, well-designed cluster sampling is typically more cost-effective than simple random sampling due to reduced administrative expenses. Properly executed stratified samples effectively mirror population characteristics, making them highly accurate.

20. (B) I, III, and IV only

Systematic sampling involves selecting elements at fixed intervals, which is often faster and cheaper than simple random sampling. However, it does not guarantee every possible sample has an equal chance of being selected. If the population contains hidden periodic patterns that align with the sampling interval, significant errors can occur. Despite this risk, it remains a popular choice for large-scale data collection.

21. (A) I and II only

In simple random sampling, the mean of the sampling distribution always equals the true population mean. The standard error is calculated by dividing the population standard deviation by the square root of the sample size. However, sample means exhibit less spread than individual population values because the averaging process reduces extreme variations. Therefore, the third statement is incorrect regarding the distribution's spread.

22. (B) A biased sample comprising individuals with strong feelings on the issue.

Interviewing only farmers for an agricultural policy survey creates a biased sample because it targets a group with intense, specific interests in the outcome. This approach ignores other affected parties and the general public, leading to results that do not represent the entire population's opinion. Such samples often reflect strong feelings rather than a balanced view, making the findings unreliable for generalizations.

23. (D) When there is considerable variation within each group, but the groups are essentially similar.

Cluster sampling is most appropriate when a population can be divided into groups that each contain wide internal variation but are similar to one another. This allows the researcher to sample just a few clusters and still capture the diversity present in the whole population. In contrast, stratified sampling requires groups to be homogeneous within themselves and different from other identified strata.

24. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Systematic sampling can introduce bias if the sampling interval coincides with a periodic pattern in the population. Choosing Fridays to study dining habits is problematic because behavior on weekends typically differs from weekdays. The reason correctly explains that this specific system would likely overestimate the frequency of eating out, leading to inaccurate results. Thus, both statements are true and logically linked.

25. (C) $1/2$

When choosing two dancers from four, there are six possible unique pairs: PQ, PR, PS, QR, QS, and RS. Of these six combinations, three pairs include dancer R. Therefore, the probability that dancer R is included in any randomly selected duet is three out of six, which simplifies to one-half. This calculation assumes that every possible sample has an equal chance.

26. (D) Time and cost constraints make contact with every population item impractical.

Conducting a census is often unfeasible due to the immense resources required to reach every member of a large population. Sampling provides a practical alternative, allowing decision-makers to obtain reliable information more quickly and at a lower cost. In most business scenarios, the efficiency gains from sampling outweigh the need for total enumeration, provided the sample is selected using proper statistical methods.

27. (A) The sampling distribution of the median.

When a statistic like the median is calculated for all possible samples of a specific size, the resulting set of values forms a sampling distribution. This theoretical distribution shows how the sample median varies around the true population median. Understanding this distribution is essential for estimating the precision of the median as a representative measure for the components being produced in manufacturing.

28. (A) Judgement Sampling

Random sampling, also known as probability sampling, includes methods where every item has a known, non-zero chance of being selected, such as simple random, systematic, and cluster sampling. Judgement sampling, however, is a non-probability method based on the researcher's subjective choice. Because it does not rely on random selection, it is not categorized as a type of random sampling.

29. (C) Simple Random Sampling – Selecting experts to determine the optimal terrain for oil drilling.

Simple random sampling requires a selection process based entirely on chance, such as using random number tables. Selecting experts for oil drilling is an example of judgement sampling,

where specialized knowledge dictates the inclusion of specific units. This does not follow the operational mechanism of simple random sampling, which demands that every item and every possible sample has an equal probability of selection.

30. (D) Stratified Sampling – Divides population into relatively homogenous groups.

Stratified sampling is characterized by dividing the population into sub-groups, or strata, based on shared characteristics. Each stratum is relatively homogeneous internally, while significant differences exist between the strata. This approach ensures that all segments of the population are represented in the final sample. Other methods like systematic or cluster sampling use different mechanisms, such as fixed intervals or heterogeneous groupings.

31. (C) $z = (\text{sample mean} - \text{population mean}) / \text{standard error}$

The standard normal variable z measures the distance between a sample mean and the population mean in units of standard error. To calculate z , the population mean is subtracted from the sample mean, and the result is divided by the standard error of the mean. This standardization process allows researchers to use normal distribution tables to determine the probability of obtaining specific results.

32. (B) A rule stating the sampling distribution of the mean approaches normality as n grows.

The Central Limit Theorem is a foundational principle in statistics stating that as sample size increases, the sampling distribution of the mean will approach a normal distribution. This occurs regardless of the shape of the original population distribution. Generally, a sample size of thirty or more is considered sufficient for this approximation, enabling the use of normal probability techniques in research.

33. (C) Assertion (A) is true, but Reason (R) is false.

The standard error of a sampling distribution decreases as the sample size increases because the denominator in the formula becomes larger. However, the standard deviation of the original population is a fixed characteristic and does not change when the sample size is modified.

Therefore, the assertion about the sampling distribution is correct, but the reason provided is factually false.

34. (A) I, II, and III only

Binomial and Poisson distributions approach a standard normal distribution as the sample size or mean increases. A sample of seven hundred coin tosses is sufficiently large to apply the Central Limit Theorem. However, even with a small defect rate, a large shipment of four hundred tools provides enough data for normal approximation. Therefore, the fourth statement is incorrect regarding the theorem.

35. (C) 1.0

To find the z-value, subtract the population mean from the sample mean and divide by the standard error. In this case, subtracting the mean of 150 from the sample mean of 160 results in a difference of 10. Dividing this difference by the standard error of 10 yields a z-value of exactly 1.0. This indicates the sample mean is one standard error above.

36. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Increasing sample size improves precision, but only at a diminishing rate because the standard error formula uses the square root of the sample size. Consequently, taking excessively large samples becomes increasingly expensive for relatively small gains in accuracy. For instance, quadrupling the sample size only halves the standard error. The reason correctly explains why the law of diminishing returns applies to sampling.

37. (A) The difference between the sample and population means due to the choice of samples. Chance error, or sampling error, arises naturally because a sample is only a part of the whole population. Even with unbiased random selection, different samples will yield slightly different means. This variation occurs simply because of the specific elements chosen for a particular sample. It is a predictable statistical phenomenon and does not imply that mistakes were made during the process.

38. (A) I, II, and V only

Most real-world populations are non-normal, yet the mean of their sampling distribution still equals the population mean. As sample size increases, the sampling distribution moves closer to a normal bell shape, not further away. Highly skewed populations require larger samples to reach normality; a sample of three is insufficient. Enlarging samples demonstrates how the distribution of means approaches normality.

39. (D) As sample size increases, standard error decreases at a diminishing rate.

There is an inverse relationship between sample size and standard error. As more items are sampled, the standard error of the mean decreases, leading to higher precision. However, because the sample size is under a square root in the formula, the reduction in error slows down as the sample size grows. This phenomenon is known as diminishing returns in statistical sampling.

40. (D) Mean of the sampling distribution

The symbol μ with a subscript $\bar{x}$ represents the mean of the sampling distribution of the mean. In statistical theory, this value is always equal to the true population mean when using simple random sampling. This equality is a fundamental assumption for making inferences about a population based on sample data, as it ensures that the sample mean is unbiased.

41. (B) I, III, IV, and V only

The finite population multiplier is used when sampling without replacement from a limited population to adjust the standard error. The correct formula is the square root of $(N-n)$ divided by $(N-1)$. It is generally omitted when the sampling fraction is below five percent. By reducing the standard error, the multiplier increases the precision of the estimated mean for research.

42. (A) IV, III, II, I

Producing a theoretical sampling distribution starts with identifying the population distribution. Next, every possible sample of a specific size is taken from that population. For each sample, the mean and standard deviation are calculated. Finally, all these individual

sample means are plotted to form the sampling distribution. This process provides the mathematical basis for understanding how sample statistics vary around parameters.

43. (C) Both I and II

According to the Central Limit Theorem, a sample size of thirty is large enough for the sampling distribution of the mean to approximate a normal distribution, regardless of the population's shape. To determine specific probabilities, such as earnings exceeding a certain amount, researchers must calculate the z-value and find the corresponding area under the curve. Both statements are accurate statistical applications.

44. (C) I and III only

The Central Limit Theorem ensures that the sampling distribution of the mean becomes normal as the sample size grows. This allows statisticians to make inferences without knowing the population's exact shape. Importantly, the mean of the sampling distribution always equals the population mean, regardless of whether the original population is normal. Therefore, the second statement is incorrect in suggesting normality.

45. (C) 0.0643

The z-value of -1.52 indicates the sample mean is below the population mean. The area between the mean and a z-value of 1.52 is 0.4357. Since the total area on one side of the normal curve is 0.5000, the probability of being further in the tail (below 100) is calculated by subtracting 0.4357 from 0.5000, resulting in 0.0643.

46. (B) 162.40 cm

A fundamental principle of sampling theory is that the mean of the sampling distribution of the mean is identical to the population mean. This property holds true regardless of the sample size or the specific elements chosen for the samples. Since the population mean height of the boys is 162.40 cm, the mean of all possible sample means will also be 162.40 cm.

47. (A) III, IV, II, I

To find the probability of a sample mean's range, first calculate the standard error. Next, determine the distance between the sample and

population means. This distance is then divided by the standard error to obtain the z-value. Finally, the z-value is used to look up the corresponding probability area in a standard normal distribution table. This sequence follows the logical steps.

48. (B) Rs. 60

The standard error of the mean is calculated by dividing the population standard deviation by the square root of the sample size. In this example, the population standard deviation is Rs. 600 and the sample size is 100. The square root of 100 is 10. Dividing Rs. 600 by 10 results in a standard error of Rs. 60 for the mean.

49. (A) The precision increases.

Standard error is an inverse measure of precision; as it decreases, the precision of the sample mean estimate increases. A smaller standard error means that sample means are more tightly clustered around the true population mean, making any single sample mean a more reliable estimator. Therefore, reducing standard error by increasing sample size directly enhances the accuracy of various statistical inferences.

50. (C) It allows normal approximation of the sampling distribution for samples $n \geq 30$.

The most significant advantage of the Central Limit Theorem is its ability to approximate the sampling distribution of the mean as normal when the sample size is at least thirty. This holds true even if the underlying population distribution is skewed. This property simplifies complex statistical problems, enabling the use of standard normal probability tables for a wide variety of practical applications.

51. (D) It increases the standard error when the population is very large relative to n.

The finite population multiplier adjusts the standard error when sampling without replacement from a limited population. Its mathematical value is always between zero and one, meaning it either reduces the standard error or leaves it virtually unchanged. It never increases the error. When the population is very large relative to the sample size, the multiplier approaches one, having negligible effect.

52. (B) I, III, and IV only

The z-table provides the probability between the mean and a given value. When z-values have opposite signs, their table probabilities are added to find the total area between them. The standard error is correctly calculated using the population standard deviation and the square root of the sample size. However, if signs are the same, the smaller probability is subtracted, not added.

53. (C) The probability that a variable is between 0.96 and 1.54 is calculated by adding their respective table values.

When calculating the probability between two positive z-values, such as 0.96 and 1.54, you must subtract the smaller area from the larger area because both points are on the same side of the mean. Adding the values is only appropriate when the z-values have opposite signs, spanning across the mean. This fundamental rule ensures the correct area is identified.

54. (B) Rs. 365.16

To calculate the standard error of the mean, divide the population standard deviation of Rs. 2,000 by the square root of the sample size of 30. The square root of 30 is approximately 5.477. Dividing 2,000 by 5.477 results in a standard error of approximately Rs. 365.16. This value represents the dispersion of all possible sample means.

55. (B) 7.2 months

In statistical theory, the mean of the sampling distribution of the mean is always equal to the original population mean. This equality is maintained regardless of the shape of the population distribution or whether the population is finite or infinite. Since the average tyre life for the population is 7.2 months, the mean of all possible sample means will also be 7.2.

56. (A) P-4, Q-1, R-2, S-3

Different scenarios involve different statistics: mercury levels are measured by the mean, basketball heights by the median, and manufacturing parts by the proportion of defects. Large national populations, such as TV households, are treated as infinite for practical analysis. Matching these scenarios correctly

ensures that researchers use the appropriate statistical tools and formulas to describe specific characteristics of the population.

57. (C) I and III only

Increasing the sample size from 10 to 100 reduces the standard error because the denominator changes from the square root of 10 to the square root of 100. This results in a reduction by a factor of approximately 3.16, not 10. This calculation illustrates the law of diminishing returns, where larger increases in sample size yield progressively smaller improvements in precision.

58. (D) 0.7697

To find the probability between two z-values with opposite signs, such as -0.96 and 1.54, you must add the corresponding areas from the probability table. The area from the mean to -0.96 is 0.3315, and the area from the mean to 1.54 is 0.4382. Adding these two areas together results in a total probability of 0.7697 for the variable range.

59. (C) The sampling distribution approaches normality only if the original population distribution is perfectly symmetrical.

The Central Limit Theorem states that the sampling distribution of the mean approaches normality regardless of the shape of the population. It does not require the original distribution to be symmetrical. Even highly skewed populations will produce a nearly normal distribution of sample means if the sample size is sufficiently large, typically at least thirty elements in the selected sample group.

60. (B) It approaches normality regardless of the shape of the population distribution.

As sample size increases, the Central Limit Theorem dictates that the sampling distribution of the mean will increasingly resemble a normal distribution. This transformation occurs even if the underlying population distribution is skewed or uniform. For most practical purposes, a sample size of thirty or more ensures that the distribution of sample means is sufficiently bell-shaped to use normal probability techniques.

- 61.** (C) Measures describing the characteristics of a sample.

A statistic is a numerical measure that describes a property of a sample, such as the sample mean or sample standard deviation. In contrast, a parameter describes the whole population. Statistics are used to estimate parameters and test hypotheses. The distinction between statistics and parameters is fundamental to the process of statistical inference, where sample data informs broader population conclusions.

- 62.** (A) No member of the population can appear in the sample more than once.

In sampling without replacement, once an individual element is selected from the population, it is not returned and cannot be chosen again for the same sample. This means every member of the sample must be unique. This method is standard in most real-world research because it is more efficient to gather data from different individuals than to measure items multiple times.

- 63.** (A) $\sigma_{\bar{x}} = \sigma / \sqrt{n}$

The precision of a sample mean is measured by the standard error, which for an infinite population is defined as the population standard deviation divided by the square root of the sample size. This formula shows that precision depends on both the variability of the population and the number of items sampled. It is the basis for constructing statistical confidence intervals.

- 64.** (A) The population of all prime numbers.

A finite population has a limited, countable number of members, such as company employees or daily factory output. The population of all prime numbers is infinite because it continues forever and cannot be fully enumerated. In statistics, identifying whether a population is finite or infinite determines if adjustments, like the finite population multiplier, are necessary when calculating the standard error of a statistic.

- 65.** (C) When the sampling fraction is less than 0.05, the finite population multiplier need not be used.

The finite population multiplier adjusts the standard error for samples taken from a

limited population. However, when the sample represents less than five percent of the total population, the multiplier is so close to one that its effect is negligible. In such cases, statisticians typically omit it to simplify calculations. This rule of thumb allows the population to be treated as infinite.

- 66.** (C) I, II, and IV only

Standard error varies inversely with the square root of the sample size. As the standard error decreases, the dispersion among sample means also decreases, leading to higher precision in estimating population parameters. However, increasing the sample size from ten to one hundred does not reduce the error to one-tenth; it reduces it by a factor of approximately three point sixteen.

- 67.** (C) I and III only

Statistical inference is the process of drawing conclusions about a population based on sample data. It assumes that samples are selected using random principles, such as simple random sampling. Conducting a census is not part of inference because it involves measuring the entire population directly, leaving nothing to infer. Therefore, only statements regarding the inference process and its assumptions are accurate.

- 68.** (B) 8

The mean of a Poisson distribution, denoted by lambda, can be calculated using the parameters of a binomial distribution as $n \times p$. In this scenario, the sample size n is four hundred tools and the probability of defect p is two percent, or 0.02. Multiplying four hundred by 0.02 results in a lambda value of eight expected defects.

- 69.** (D) It demands that personal experience uniquely dictates the inclusion of sampling units.

Simple random sampling is defined by an objective process where every possible sample and every element has an equal probability of selection. It serves as the mathematical foundation for statistical inference. While manual methods are difficult for large groups, the process is never dictated by personal experience. Reliance on personal experience is

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instead a characteristic of judgement sampling, a non-probability method.

70. (A) P-3, Q-1, R-2, S-4

The standard error is the standard deviation of a sampling distribution, while sampling error represents the variation due to chosen elements. An infinite population is one where it is impossible to observe every element. The finite population multiplier is the adjustment factor used when studying a population of limited size. These terms are essential for accurately calculating the reliability of statistical results.

71. (D) $\sqrt{(15 / 19)}$

The finite population multiplier formula is the square root of $(N-n)$ divided by $(N-1)$. For a population of twenty textile companies and a sample of five, N is twenty and n is five. Substituting these values gives twenty minus five in the numerator and twenty minus one in the denominator. This results in the square root of fifteen over nineteen as the multiplier.

72. (B) I, II, and IV only

Statistical formulas are precise: standard error equals the population standard deviation divided by the square root of n , and the distance from the mean is measured in units of standard error. The finite population multiplier uses the square root of $(N-n)$ over $(N-1)$. While the Central Limit Theorem often applies at $n=30$, the third statement is incorrect.

73. (A) P-3, Q-1, R-2, S-4

Parameters describe populations, whereas systematic sampling involves selection at fixed intervals. Random sampling ensures items have an equal chance of being chosen. The sampling distribution of the mean is the probability distribution of means from all possible samples of a specific size. Correctly matching these terms is vital for understanding the methodology behind data collection and the theoretical frameworks used in analysis.

74. (D) Population N is large relative to n – The finite population multiplier value decreases.
The finite population multiplier formula is the square root of $(N-n)$ divided by $(N-1)$. As the population size N becomes much larger than the sample size n , the value of the fraction

approaches one, meaning the multiplier actually increases toward its maximum value. It decreases only when the sample size represents a larger portion of the population, thereby reducing the calculated standard error.

75. (A) I only

The ratio of sample size to population size is known as the sampling fraction. While this definition is correct, the second statement is false because the finite population multiplier actually approaches one, not zero, as the sampling fraction becomes smaller. When the multiplier is close to one, it has no significant effect, which is why it is often omitted by statisticians.

76. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

For small sampling fractions, the standard error depends almost entirely on the absolute sample size rather than the percentage of the population sampled. This is because the finite population multiplier approaches one and can be ignored. Therefore, increasing the absolute number of items in the sample is the primary way to improve precision. The reason provided correctly explains this statistical relationship.

- (A) I, II, III, and V only

A census measures every element, and stratified sampling often draws equal elements from strata for subsequent weighting. Clusters are heterogeneous internally but similar to one another. Judgement sampling utilizes personal knowledge for selection. However, random sampling only ensures each item has a known probability of being chosen; it does not guarantee that every single item will definitely be included in the sample.

78. (B) The measure of sampling precision depends only on the proportion of the population sampled.

Sampling precision is determined by the absolute size of the sample rather than the proportion of the population it represents. Increasing the sample size decreases the standard error, though this occurs at a diminishing rate. A sample of one hundred from a million provides nearly the same precision as a sample of one hundred

from ten thousand, assuming the population variance is constant.

- 79.** (B) The multiplier of 0.99 would have little effect on the calculation of the standard error of the mean.

A finite population multiplier of 0.99 occurs when the sample size is very small relative to the total population. Multiplying the standard error by 0.99 results in only a one percent reduction, which is practically insignificant in most statistical applications. This demonstrates why the multiplier is typically omitted when the sampling fraction is less than 0.05, as it does not change results.

- 80.** (B) II, III, IV, and V only

A statistic describes a sample, while a parameter describes a population; thus the first statement is incorrect. The remaining statements are accurate: the finite population multiplier is optional for small sampling fractions, standard error decreases as sample size increases, a census requires examining every item, and the sampling fraction is the ratio of the sample size to population size.

CHAPTER 03

Measures of Central Tendency & Dispersion, Skewness, Kurtosis

NODIA

1. How would the auditor technically classify the kurtosis of the loan default distribution, given its higher and sharper peak?
(A) Mesokurtic
(B) Leptokurtic
(C) Platykurtic
(D) Symmetrical
2. Identify the incorrectly matched pair relating to central tendency from the following options.
(A) Quartile 1 : Lower quartile of data
(B) Median : Middle value of distribution
(C) Arithmetic Mean : Position average
(D) Median : Position average in the set
3. Which of the following is defined as the average value or mean which measures the central tendency of the set of numbers by taking the root of the product of their values?
(A) Geometric Mean
(B) Arithmetic Mean
(C) Harmonic Mean
(D) Median
4. Read the following statements regarding Harmonic Mean.
I. It is the reciprocal of the arithmetic mean of reciprocals of the observations.
II. It is appropriate when data values are ratios of two variables with different measures.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II
5. Which of the following is defined as the degree of distortion from the symmetrical bell curve or the normal distribution, measuring the lack of symmetry in data distribution?
(A) Kurtosis
(B) Standard Deviation
(C) Quartile Deviation
(D) Skewness
6. Read the following statements regarding Kurtosis.
I. Leptokurtic distributions mean tails are fatter.
II. Platykurtic distributions mean tails are thinner.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II
7. The empirical relationship connecting Mean, Median, and Mode is expressed as:
(A) Mode = 3 Mean - 2 Median
(B) Mode = 3 Median - 2 Mean
(C) Mode = 2 Median - 3 Mean
(D) Mode = 2 Mean - 3 Median
8. Read the following statements regarding the Geometric Mean.
I. It is always less than or equal to the Arithmetic Mean for positive values.
II. It can be calculated for zero or negative values.
III. It is useful in the construction of index numbers.
Which of the above statement(s) is/are

correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

Oct/Nov 2012

9. In a common measure of skewness, the direction of skewness is measured by the sign of:
- (A) μ_3
 - (B) μ_2
 - (C) μ_4
 - (D) β_2

May/June 2009

10. Read the following statements regarding the measures of dispersion.
- I. Dispersion establishes the degree of variability or the scatter of individual items.
 - II. Range is an absolute measure of dispersion.
 - III. Coefficient of Variation is an absolute measure of dispersion.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) I and III only
 - (C) II and III only
 - (D) I, II, and III

Oct/Nov 2016

11. Why can the Median be calculated even if the extreme values are not known?
- (A) Because it can be calculated if the number of items is known, as it is a position average.
 - (B) Because it is defined as the mathematical reciprocal of the calculated arithmetic mean.
 - (C) Because it is a calculated average that depends on the magnitude rather than position.
 - (D) Because it is defined as the point of maximum frequency or concentration in the set.

May/June 2005

12. Read the following statements regarding Arithmetic Mean.
- I. It is easy to calculate and simple to follow.
 - II. It can average ratios and percentages

properly.

- III. It is an appropriate average for highly skewed distribution.
- IV. It sometimes does not coincide with any of the observed value.

Which combination of statements is correct?

- (A) I and IV only
- (B) II and III only
- (C) I, II, and IV only
- (D) I, III, and IV only

Oct/Nov 2009

13. In the context of kurtosis, what does the measure of kurtosis actually describe regarding the data distribution?
- (A) The tendency of data to cluster around a central value.
 - (B) The measure of outlier-proneness or the weight of the tails.
 - (C) The average growth rates compounded annually.
 - (D) The lack of symmetry in data distribution.

May/June 2025

14. Read the following statements regarding Range and Quartile Deviation.
- I. Range is not based on all observations.
 - II. As the amount of data increases, range becomes less satisfactory.
 - III. Quartile Deviation is not capable of further algebraic treatment.
 - IV. Quartile Deviation is highly affected by extreme values.

Which combination of statements is correct?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, and IV only

Oct/Nov 2022

15. Which of the following is a correct statement regarding Mode?
- (A) It is based on all observations and values within the specific data set.
 - (B) It is capable of further algebraic treatment and complex mathematical analysis.
 - (C) It is an appropriate average for data sets with a highly skewed distribution.
 - (D) It is the value which occurs more number of times than any other number in the set.

May/June 2016

16. Read the following statements regarding Standard Deviation.

- I. It is the most important and commonly used measure of dispersion.
- II. A small standard deviation means a high degree of consistency.
- III. It is based on all observations.
- IV. It is not rigidly defined.

Which combination of statements is correct?

- (A) I, II, and III only
- (B) I, III, and IV only
- (C) II, III, and IV only
- (D) I, II, and IV only

Oct/Nov 2006

17. Which of the following correctly describes a positively skewed distribution?

- (A) Mean and median are less than mode.
- (B) Mean and median are greater than mode.
- (C) The bulk of observations is in the right side.
- (D) The negative side is longer.

May/June 2019

18. Read the following statements regarding measures of dispersion.

- I. Mean deviation is an absolute measure of dispersion.
- II. Coefficient of Range is a relative measure of dispersion.
- III. Standard deviation is an absolute measure of dispersion.
- IV. Coefficient of Quartile Deviation is a relative measure.
- V. Standard deviation is not affected much by sampling fluctuations.

Which combination of statements is correct?

- (A) I, II, III, and V only
- (B) I, II, III, IV, and V
- (C) II, III, IV, and V only
- (D) I, III, IV, and V only

Oct/Nov 2023

19. Which of the following is an incorrect statement regarding Range?

- (A) As the amount of data increases, range becomes more satisfactory.
- (B) It is the simplest absolute measure of dispersion used in statistical studies.
- (C) It does not have sampling stability when compared to standard deviation.

(D) It is not based on all observations found within the given statistical data.

May/June 2011

20. Read the following statements regarding Kurtosis and Skewness.

- I. Leptokurtic distributions have peaks that are lower and shorter than mesokurtic.
- II. A standard measure of skewness is given by β_1 .
- III. For mesokurtic distribution, the excess kurtosis is 0.
- IV. In a negatively skewed distribution, mean and median are less than mode.
- V. Skewness is the degree of distortion from the symmetrical bell curve.

Which combination of statements is correct?

- (A) I, II, III, and IV only
- (B) II, III, IV, and V only
- (C) I, III, IV, and V only
- (D) I, II, IV, and V only

Oct/Nov 2015

21. Which of the following is an incorrect statement regarding Kurtosis?

- (A) Distributions whose peaks are the same as of Normal distribution are Mesokurtic.
- (B) Kurtosis is used to describe the extreme values in one versus the other tail.
- (C) Platykurtic distributions have tails that are thinner than normal distributions.
- (D) Leptokurtic distributions have lower and shorter peaks than mesokurtic.

May/June 2008

22. The following questions consist of two statements – Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.

Assertion (A): Arithmetic mean is not an appropriate average for a highly skewed distribution.

Reason (R): Arithmetic mean is highly affected by extreme values.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2010

23. Which of the following is NOT a stated application of Geometric Mean?

- (A) Used in stock indexes.
- (B) Used to calculate quantities such as average speed for a journey.
- (C) Used to find the average growth rates.
- (D) Used in studies like cell division and bacterial growth.

May/June 2022

24. The following questions consist of two statements – Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.

Assertion (A): Mean deviation is capable of further algebraic treatment.

Reason (R): Mean deviation is calculated considering the absolute values of the deviations from the mean.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2007

25. Which of the following is NOT a demerit of Median?

- (A) It is affected by extreme values.
- (B) It is not based on all observations.
- (C) It is affected by sampling fluctuations.
- (D) It is not capable of further algebraic treatment.

May/June 2020

26. The following questions consist of two statements – Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.

Assertion (A): In a positively skewed distribution, the mean and median are greater than the mode.

Reason (R): In a positively skewed distribution,

the bulk of observations is in the right side of the mean and the negative side is longer.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2019

27. When calculating the central tendency for data values that are ratios of two variables with different measures (rates), which is the most appropriate measure to use?

- (A) Harmonic Mean
- (B) Arithmetic Mean
- (C) Geometric Mean
- (D) Median

May/June 2012

28. Following the discovery of the error in the salary audit, what is the corrected sum of the observations for all 50 employees?

- (A) Rs. 33,550
- (B) Rs. 34,000
- (C) Rs. 34,450
- (D) Rs. 34,720

Oct/Nov 2014

29. When studying economic problems such as the distribution of income and wealth in a society, which measure of dispersion is typically used?

- (A) Coefficient of Variation
- (B) Mean Deviation
- (C) Standard Deviation
- (D) Quartile Deviation

May/June 2010

30. Which measure of central tendency should the analyst use to accurately calculate the average growth rates considering the compounding effect?

- (A) Arithmetic Mean
- (B) Harmonic Mean
- (C) Geometric Mean
- (D) Median

Oct/Nov 2021

31. If a distribution is described as having bulk observations in the right side with a longer negative side, what is the most appropriate description of its mean and median relative to its mode?
- (A) Mean and median are equal to the mode.
 (B) Mean and median are greater than the mode.
 (C) Mean and mode are greater than the median.
 (D) Mean and median are less than the mode.

May/June 2014

32. The Geometric Mean is deemed appropriate by the analyst because of its specific merits. Which of the following is a recognized merit of this measure relevant to the analyst's task?
- (A) It averages ratios and percentages properly without compounding.
 (B) It can be calculated for open-end class intervals.
 (C) It ignores the algebraic signs of extreme values.
 (D) It is useful in the construction of index numbers.

Oct/Nov 2017

33. According to the relationship between the three mathematical averages for the same set of positive values, which of the following represents the correct descending order of magnitude?
- (A) Geometric Mean > Arithmetic Mean > Harmonic Mean
 (B) Harmonic Mean > Geometric Mean > Arithmetic Mean
 (C) Arithmetic Mean > Geometric Mean > Harmonic Mean
 (D) Arithmetic Mean > Harmonic Mean > Geometric Mean

May/June 2006

34. For a particular van, the arithmetic mean of its speeds is known to be 25 km/hr, and its geometric mean is 20 km/hr. Using the mathematical relationship between the averages, what is the harmonic mean of the van's speeds?
- (A) 12 km/hr
 (B) 15 km/hr
 (C) 16 km/hr

(D) 18 km/hr

Oct/Nov 2008

35. Match the formula in List I to the correct measure in List II.

List I: (Formula)

- P. $(\text{Max} - \text{Min}) / (\text{Max} + \text{Min})$
 Q. $(Q_3 - Q_1) / (Q_3 + Q_1)$
 R. $(\sigma / \bar{x}) \times 100\%$
 S. $\text{MD}(\text{Mean}) / \text{Mean}$

List II: (Measure)

1. Coefficient of Mean Deviation
 2. Coefficient of Range
 3. Coefficient of Variation
 4. Co-efficient of QD
 (A) P-2, Q-4, R-3, S-1
 (B) P-4, Q-2, R-1, S-3
 (C) P-1, Q-3, R-2, S-4
 (D) P-3, Q-1, R-4, S-2

May/June 2023

36. Based on the standard deviation, which model shows a higher degree of consistency and why?
- (A) Model B, because a larger standard deviation means higher consistency.
 (B) Both are equally consistent since their average scores are the same.
 (C) Model B, because a larger standard deviation is less affected by extreme values.
 (D) Model A, because a smaller standard deviation means a high degree of consistency.

Oct/Nov 2013

37. Match the term in List I to its definition in List II.

List I: (Term)

- P. Dispersion
 Q. Range
 R. Quartile Deviation
 S. Mean Deviation

List II: (Definition)

1. Mid-point of the range between two quartiles
 2. Scatter of individual items from averages
 3. Arithmetic mean of all the absolute deviations
 4. Simplest absolute measure of dispersion
 (A) P-2, Q-4, R-1, S-3
 (B) P-4, Q-2, R-3, S-1
 (C) P-1, Q-3, R-2, S-4

(D) P-3, Q-1, R-4, S-2

May/June 2018

38. If the department decides to use Mean Deviation instead of Standard Deviation to assess variability in the credit scores, what major statistical drawback will they encounter?
- (A) Mean deviation gives more weight to extreme items found in the tails of the data distribution.
- (B) Mean deviation is highly affected by the presence of open-end class intervals in the dataset.
- (C) Mean deviation ignores algebraic signs, hence it is not capable of further algebraic treatment.
- (D) Mean deviation cannot be calculated if the mean of the distribution is found to be exactly zero.

Oct/Nov 2020

39. Identify the correctly matched pair of a measure and its demerit from the following options.
- (A) Geometric Mean : It is not affected by extreme values.
- (B) Mean Deviation : It ignores algebraic signs.
- (C) Harmonic Mean : It is highly affected by sampling fluctuations.
- (D) Mode : It is capable of further algebraic treatment.

May/June 2015

40. Given the type of skewness identified in the loan defaults, what relationship holds true among the measures of central tendency for this data?
- (A) Mean and median are greater than mode.
- (B) Mean and median are less than mode.
- (C) Mean, median, and mode are all equal.
- (D) Mode is greater than mean, but less than median.

Oct/Nov 2025

41. Identify the incorrectly matched pair of a measure of dispersion and its classification from the following options.
- (A) Coefficient of Quartile Deviation : Absolute Measure
- (B) Range of the dataset distribution : Absolute Measure

- (C) Standard Deviation of the sample : Absolute Measure
- (D) Coefficient of Variation values : Relative Measure

May/June 2017

42. The tendency of data to cluster around a central or mid value is called:
- (A) Measure of Dispersion
- (B) Central Tendency
- (C) Skewness
- (D) Kurtosis

Oct/Nov 2018

43. Read the following statements regarding Arithmetic Mean.
- I. It is determined for almost every kind of data and is finite and definite.
- II. It cannot be computed accurately if any item is missing.
- Which of the above statement(s) is/are correct?
- (A) Only I
- (B) Only II
- (C) Both I and II
- (D) Neither I nor II

May/June 2024

44. Which of the following represents the division of data into four equal parts, based on the data values and their relationship to the total set of observations?
- (A) Dispersion
- (B) Standard Deviation
- (C) Quartiles
- (D) Kurtosis

Oct/Nov 2011

45. Read the following statements regarding Mode.
- I. It is defined as the number which occurs less frequently than any other number in the set.
- II. If two or more values occur with equal number of times, the distribution is multimodal.
- Which of the above statement(s) is/are correct?
- (A) Only I
- (B) Only II
- (C) Both I and II
- (D) Neither I nor II

May/June 2007

46. Which of the following are statistical constants which enable us to comprehend in a single effort the significance of the whole?
- (A) Measures of statistical dispersion
 - (B) Measures of distribution skewness
 - (C) Measures of Central Tendency
 - (D) Measures of distribution kurtosis

Oct/Nov 2005

47. Read the following statements regarding the requisites of a good measure of central tendency.
- I. It should be capable of further mathematical treatment.
 - II. It should be least affected by the fluctuations of the sampling.
 - III. It should be unduly affected by the extreme values.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

May/June 2013

48. The mathematical relationship among Arithmetic Mean (A.M.), Geometric Mean (G.M.), and Harmonic Mean (H.M.) is given by:
- (A) $A.M. + H.M. = (G.M.)^2$
 - (B) $A.M. / H.M. = (G.M.)^2$
 - (C) $A.M. \times G.M. = (H.M.)^2$
 - (D) $A.M. \times H.M. = (G.M.)^2$

Oct/Nov 2024

49. Read the following statements regarding Quartiles.
- I. A quartile represents the division of data into four equal parts.
 - II. The interquartile range calculates the range of values above and below the mean.
 - III. The lower quartile is Q1 and the upper quartile is Q3.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) I and III only
 - (C) II and III only
 - (D) I, II, and III

May/June 2021

50. Why is the Harmonic Mean generally used to calculate quantities such as speed?
- (A) Because it accounts for the compounding growth effect over a period of time.
 - (B) Because it is appropriate for managing data with highly skewed distributions.
 - (C) Because speed is expressed as a ratio of two measuring units such as km/hr.
 - (D) Because it divides the distribution into two equal and symmetrical parts.

Oct/Nov 2012

51. Read the following statements regarding Skewness.
- I. It measures the lack of symmetry in data distribution.
 - II. In positive skew, mean and median are less than mode.
 - III. If $\beta_1 = 0$, the distribution is symmetrical.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) I and III only
 - (C) II and III only
 - (D) I, II, and III

May/June 2009

52. What does the interquartile range calculate in a dataset?
- (A) The reciprocal of the arithmetic mean of reciprocals.
 - (B) The average value of absolute deviations from the mean.
 - (C) The peak of the normal distribution.
 - (D) The measure of variability in the middle 50% of the distribution.

Oct/Nov 2016

53. Read the following statements regarding Median and Mode.
- I. Median is a calculated average whereas arithmetic mean is a position average.
 - II. Median is not affected by extreme values.
 - III. Mode is ill defined as it is not based on all observations.
 - IV. Mode is not capable of further algebraic treatment.
- Which combination of statements is correct?
- (A) I, II, and III only
 - (B) II, III, and IV only
 - (C) I, III, and IV only

(D) I, II, and IV only

May/June 2005

54. Which of the following is a correct statement regarding Arithmetic Mean?
- (A) It is not affected by extreme values or outliers within the dataset.
 - (B) It averages the ratios and percentages in a mathematically proper way.
 - (C) It cannot be calculated when open-end class intervals are present in the data.
 - (D) It cannot be put to further algebraic treatment or mathematical manipulation.

Oct/Nov 2009

55. Read the following statements regarding Mean Deviation.
- I. It considers absolute values of deviations.
 - II. It ignores algebraic signs.
 - III. It is capable of further algebraic treatment.
 - IV. It is used in studying distribution of income and wealth.
- Which combination of statements is correct?
- (A) I, II, and III only
 - (B) I, II, and IV only
 - (C) II, III, and IV only
 - (D) I, III, and IV only

May/June 2025

56. Which of the following is a correct statement regarding Mean Deviation?
- (A) It is the arithmetic mean of all the deviations calculated considering their absolute values.
 - (B) It considers the algebraic signs of all deviations during the calculation process.
 - (C) It is highly capable of further algebraic treatment and advanced statistical modeling.
 - (D) It is a relative measure of dispersion used to compare two or more distributions.

Oct/Nov 2022

57. Read the following statements regarding Measure of Central Tendency.
- I. The main objective is to condense data in a single value.
 - II. It facilitates comparisons between data.
 - III. It is measured by averages.
 - IV. Geometric Mean is calculated only for positive values.
 - V. Arithmetic mean is not affected by

fluctuations of sampling.

Which combination of statements is correct?

- (A) I, II, III, and IV only
- (B) I, III, IV, and V only
- (C) II, III, IV, and V only
- (D) I, II, IV, and V only

May/June 2016

58. Which of the following is an incorrect statement regarding Geometric Mean?
- (A) It takes into account the compounding effect of the data.
 - (B) It is always greater than Arithmetic Mean.
 - (C) It cannot be calculated when any item or value is zero or negative.
 - (D) It is relatively difficult to compute as it requires knowledge of logarithms.

Oct/Nov 2006

59. Read the following statements regarding mathematical averages and percentiles.
- I. Harmonic mean is used to find the average of different rates.
 - II. Arithmetic mean is appropriate if the values have the same units.
 - III. Geometric mean is appropriate if the values represent ratios or growth rates.
 - IV. $A.M. \times G.M. = (H.M.)^2$
 - V. Median is equal to the 50th percentile.
- Which combination of statements is correct?
- (A) I, II, III, and V only
 - (B) I, II, IV, and V only
 - (C) II, III, IV, and V only
 - (D) I, III, IV, and V only

May/June 2019

60. Which of the following is an incorrect statement regarding Quartile Deviation?
- (A) It is the mid-point of the range between two quartiles.
 - (B) It is not affected by extreme values.
 - (C) It is capable of further algebraic treatment.
 - (D) It is easy to calculate and understand.

Oct/Nov 2023

61. Read the following characteristics regarding measures of averages and dispersion.
- I. Range does not have sampling stability.
 - II. Mean Deviation ignores algebraic signs.
 - III. Standard deviation gives more weight to extreme items.
 - IV. Coefficient of Variation is given by $(\sigma / \bar{x})$

$\times 100\%$.

V. Quartile Deviation is based on all observations.

Which combination of statements is correct?

- (A) I, II, III, and IV only
- (B) II, III, IV, and V only
- (C) I, III, IV, and V only
- (D) I, II, IV, and V only

May/June 2011

62. Which of the following is NOT a requisite of a good measure of central tendency?

- (A) It should be rigidly defined.
- (B) It should be based on all the observations of the data.
- (C) It should be unduly affected by extreme values.
- (D) It should be capable of further mathematical treatment.

Oct/Nov 2015

63. The following questions consist of two statements – Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.

Assertion (A): Geometric mean cannot be calculated when any item or value is zero or negative.

Reason (R): Geometric mean takes into account the compounding effect by taking the root of the product of their values.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

64. Which of the following is NOT an Absolute Measure of Dispersion?

- (A) The Range of the Data
- (B) The Quartile Deviation
- (C) The Standard Deviation
- (D) Coefficient of Variation

Oct/Nov 2010

65. The following questions consist of two statements – Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.

Assertion (A): A small standard deviation means a high degree of consistency in the observations.

Reason (R): Standard deviation measures the spread or variability of a distribution.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2022

66. Which of the following is NOT a characteristic of a good measure of dispersion?

- (A) It should be based on all observations in the data.
- (B) It should be capable of further algebraic treatment.
- (C) It should be affected much by sampling fluctuations.
- (D) It should be rigidly defined by a mathematical rule.

Oct/Nov 2007

67. Before the correction is made, what was the wrong sum of the observations for the 50 employees?

- (A) Rs. 34,000
- (B) Rs. 34,450
- (C) Rs. 33,550
- (D) Rs. 35,000

May/June 2020

68. To measure the spread in Quality Control, fluctuations in Share Prices, and Weather Forecasts, which measure is most appropriately used?

- (A) Standard Deviation
- (B) Mean Deviation
- (C) Quartile Deviation
- (D) Range

Oct/Nov 2019

69. What will be the corrected arithmetic mean salary of the 50 employees after adjusting for the actual salary of the employee?
- (A) Rs. 671
(B) Rs. 680
(C) Rs. 695
(D) Rs. 689

May/June 2012

70. What does a small standard deviation most accurately represent in a dataset?
- (A) High degree of skewness in the observed data points.
(B) Presence of significant outliers in the distribution.
(C) High degree of consistency and homogeneity of the series.
(D) A uniform compounding effect over multiple time periods.

Oct/Nov 2014

71. If one of the periods in the portfolio performance analysis had a return value that dropped exactly to zero, what would happen to the Geometric Mean of the raw values?
- (A) It would become negative.
(B) It would become zero (or cannot be calculated in logarithmic terms).
(C) It would remain unaffected.
(D) It would equal the arithmetic mean.

May/June 2010

72. In what order do the percentiles divide the distribution when creating dataset groupings using quartiles (from lowest to highest percentile)?
- (A) 25th percentile, 75th percentile, 50th percentile, 100th percentile
(B) 25th percentile, 50th percentile, 75th percentile, 100th percentile
(C) 50th percentile, 25th percentile, 75th percentile, 100th percentile
(D) 100th percentile, 75th percentile, 50th percentile, 25th percentile

Oct/Nov 2021

73. Which measure of central tendency is most appropriate for the fleet manager to calculate the average speed of a journey?
- (A) Harmonic Mean
(B) Arithmetic Mean
(C) Geometric Mean

(D) Median

May/June 2014

74. Match the average in List I to its specific characteristic/application in List II.

List I: (Average)

- P. Arithmetic Mean
Q. Geometric Mean
R. Harmonic Mean
S. Mode

List II: (Characteristic/Application)

- Cannot average ratios and percentages properly
 - Only the point of maximum concentration is required
 - Expressed as a ratio of two measuring units such as km/hr
 - Takes into account the compounding effect
- (A) P-1, Q-4, R-3, S-2
(B) P-4, Q-1, R-2, S-3
(C) P-3, Q-2, R-4, S-1
(D) P-1, Q-3, R-2, S-4

Oct/Nov 2017

75. In managing the cash-in-transit vans, why is the Harmonic Mean logically preferred over the Arithmetic Mean for calculating average speed?
- (A) Because Harmonic Mean is appropriate when values are ratios of two variables with different measures.
(B) Because Harmonic Mean ignores the compounding effect often found in financial or growth data.
(C) Because Arithmetic Mean is only intended for use with grouped data and frequency distributions.
(D) Because Harmonic Mean gives more weight to extreme items found in the tails of the distribution.

May/June 2006

76. Match the kurtosis type in List I to its characteristic in List II.

List I: (Kurtosis Type)

- P. Mesokurtic
Q. Leptokurtic
R. Platykurtic
S. Skewness

List II: (Characteristic)

- Fatter tails and sharper peaks
- Degree of distortion from symmetrical bell

curve

3. Thinner tails and lower peaks
 4. Peaks are same as of Normal distribution
- (A) P-4, Q-1, R-3, S-2
 (B) P-1, Q-3, R-4, S-2
 (C) P-3, Q-4, R-1, S-2
 (D) P-4, Q-2, R-3, S-1

Oct/Nov 2008

77. What is the Coefficient of Variation for Model A's credit scores?
- (A) 10%
 (B) 5%
 (C) 20%
 (D) 2%

May/June 2023

78. Match the condition in List I to the type of skewness in List II.
- List I: (Condition)
- P. $\beta_1 = 0$
 Q. $\beta_1 > 0$ (assuming signed coefficient)
 R. $\beta_1 < 0$ (assuming signed coefficient)
 S. Mean and Median > Mode
- List II: (Type of Skewness)
1. Negative skew
 2. Symmetrical distribution
 3. Positive skew
 4. Indicates bulk is in left side
- (A) P-2, Q-3, R-1, S-4
 (B) P-1, Q-4, R-2, S-3
 (C) P-3, Q-1, R-4, S-2
 (D) P-4, Q-2, R-3, S-1

Oct/Nov 2013

79. Based on the auditor's observation of the distribution's shape (higher and sharper peak), what type of skewness does the loan default data exhibit?
- (A) Negative skew
 (B) Symmetrical distribution
 (C) Mesokurtic skew
 (D) Positive skew

May/June 2018

80. Identify the correctly matched pair regarding Kurtosis from the following options (where β_2 represents excess kurtosis).
- (A) $\beta_2 = 0$: Leptokurtic distribution
 (B) $\beta_2 < 0$: Normal distribution's peak
 (C) $\beta_2 > 0$: Mesokurtic distribution
 (D) $\beta_2 > 0$: Leptokurtic distribution

ANSWERS

1. (B) Leptokurtic

Kurtosis measures the “tailedness” or peak intensity of a probability distribution relative to a normal distribution. A leptokurtic distribution is characterized by a higher and sharper central peak compared to a mesokurtic distribution. This indicates that the data has fatter tails and a higher concentration of values around the mean, suggesting more frequent extreme outliers.

2. (C) Arithmetic Mean : Position average

Arithmetic mean is a calculated average derived by summing all observations and dividing by the total count, rather than being determined by their relative positions in a set. In contrast, measures like the median and quartiles are strictly position-based averages. Therefore, labeling the arithmetic mean as a position average represents a fundamental error in statistical classification.

3. (A) Geometric Mean

The geometric mean represents a specialized mathematical average found by taking the n th root of the product of n observations. This specific measure is primarily utilized for data involving ratios, percentages, or growth rates over time. It effectively accounts for compounding effects, making it superior to the arithmetic mean when dealing with relative changes and logarithmic scales.

4. (C) Both I and II

The harmonic mean is mathematically defined as the reciprocal of the arithmetic mean of the reciprocals of the data points. It is particularly effective for averaging ratios or rates, such as speed or price, where the units of measurement vary. Both provided statements correctly describe its structural definition and its practical applicability in handling complex variable measures accurately.

5. (D) Skewness

Skewness serves as a statistical measure quantifying the lack of symmetry or the

degree of distortion in a frequency distribution compared to a normal bell curve. It indicates the direction and extent to which data deviates from a balanced center. While kurtosis focuses on the peak and tails, skewness specifically addresses the imbalance between the two sides of the distribution.

6. (C) Both I and II

Kurtosis describes the shape of a distribution's peak and the thickness of its tails relative to a normal distribution. Leptokurtic distributions are characterized by fatter tails and sharper peaks, indicating a higher probability of extreme values. Conversely, platykurtic distributions possess thinner tails and flatter peaks, signifying a more spread-out data structure with fewer extreme outliers than normal.

7. (B) Mode = 3 Median - 2 Mean

In moderately asymmetrical distributions, Karl Pearson established a specific empirical relationship between the three main measures of central tendency. This formula posits that the mode equals the difference between three times the median and two times the arithmetic mean. This relationship allows statisticians to estimate one value when the other two are known, assuming a reasonably smooth distribution.

8. (C) I and III only

For any set of positive values, the geometric mean is consistently less than or equal to the arithmetic mean. It plays a crucial role in constructing index numbers because it handles ratios effectively. However, it cannot be calculated for zero or negative values because products involving zero result in zero, and roots of negative numbers are mathematically undefined.

9. (A) μ_3

The third central moment, denoted as μ_3 , is the primary mathematical indicator used to determine the direction and magnitude of skewness. A positive value indicates a

distribution skewed to the right, while a negative value signifies leftward skewness. This moment measures the lack of symmetry by cubing deviations from the mean, effectively highlighting the imbalance in data distribution.

10. (A) I and II only

Dispersion quantifies the degree of variability or scatter among individual items in a dataset. The range is classified as an absolute measure of dispersion because it is expressed in the same units as the data. However, the coefficient of variation is a relative measure, expressed as a percentage, which allows for comparisons across different datasets regardless of their units.

11. (A) Because it can be calculated if the number of items is known, as it is a position average. The median is fundamentally a positional average that identifies the middle value of a sorted distribution. Since its calculation depends solely on the rank or position of the central items, the actual magnitude of extreme values at the ends of the distribution does not influence the result. This characteristic makes it highly robust and useful when dealing with open-ended datasets.

12. (A) I and IV only

The arithmetic mean is widely favored for its simplicity and ease of calculation across various data types. A notable characteristic is that the resulting mean value may not match any actual observation within the original dataset. However, it is poorly suited for averaging ratios or percentages properly and is highly sensitive to outliers, making it inappropriate for skewed distributions.

13. (B) The measure of outlier-proneness or the weight of the tails.

Kurtosis is a statistical measure that specifically describes the shape of a distribution's tails and the degree to which it is outlier-prone. It evaluates whether the data are heavy-tailed or light-tailed relative to a normal distribution. While often confused with peak height, its primary statistical significance lies in measuring the density and frequency of values occurring in the distribution's tails.

14. (A) I, II, and III only

Range is a simple measure that relies only on the highest and lowest values, ignoring all intermediate observations, which makes it less satisfactory as data volume increases. Quartile deviation measures the spread between specific percentiles and lacks the algebraic properties needed for advanced mathematical treatment. Crucially, quartile deviation is not significantly affected by extreme values, unlike the standard range.

15. (D) It is the value which occurs more number of times than any other number in the set.

The mode is a measure of central tendency defined by the frequency of observations within a dataset. It represents the specific value that appears most often, indicating the point of highest concentration. Unlike the mean, the mode is not necessarily unique and does not utilize every observation in its calculation, nor is it easily subjected to complex algebraic manipulations.

16. (A) I, II, and III only

Standard deviation is the premier measure of dispersion, utilizing all observations to provide a comprehensive view of variability. It is rigidly defined by a mathematical formula, contrary to the claim that it lacks definition. A lower standard deviation indicates that the data points are clustered closely around the mean, reflecting a high degree of consistency and homogeneity within the series.

17. (B) Mean and median are greater than mode. In a positively skewed distribution, the tail on the right side is longer, and the bulk of observations are concentrated on the left. This imbalance pulls the arithmetic mean and the median toward the higher values in the right tail. Consequently, the mean and median both exceed the mode, which remains located at the highest point of the distribution's peak.

18. (B) I, II, III, IV, and V

All provided statements accurately categorize measures of dispersion. Mean deviation and standard deviation are absolute measures, while coefficients of range and quartile deviation are relative measures. Additionally, the standard deviation is recognized for its stability and is

relatively unaffected by sampling fluctuations compared to other measures. These definitions form the basis for choosing appropriate tools for statistical variability analysis.

- 19.** (A) As the amount of data increases, range becomes more satisfactory.

The range is highly sensitive to extreme values because it only considers the maximum and minimum observations. As the size of a dataset increases, the likelihood of encountering outliers also increases, which can lead to a misleading representation of the overall spread. Therefore, the range becomes less satisfactory and less reliable as a measure of dispersion as data volume grows.

- 20.** (B) II, III, IV, and V only

Skewness measures the lack of symmetry, while kurtosis describes the peak and tails. For a mesokurtic distribution, excess kurtosis is zero. In negative skewness, the mean and median are smaller than the mode. However, leptokurtic distributions actually have higher and sharper peaks than mesokurtic ones, meaning the first statement is incorrect while the remaining four are factually accurate.

- 21.** (D) Leptokurtic distributions have lower and shorter peaks than mesokurtic.

This statement is incorrect because leptokurtic distributions are characterized by a higher and sharper central peak compared to the normal or mesokurtic distribution. They also feature fatter tails, indicating a greater concentration of values around the mean and a higher frequency of outliers. In contrast, platykurtic distributions possess lower, flatter peaks and thinner tails relative to the normal curve.

- 22.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

The arithmetic mean is calculated by summing all values, which makes it extremely sensitive to outliers or extreme values in a dataset. In a highly skewed distribution, these extreme values pull the mean away from the center of the data. This sensitivity makes the mean a poor representation of the central tendency, justifying the assertion that it is inappropriate here.

- 23.** (B) Used to calculate quantities such as average speed for a journey.

Calculating average speed for a journey involves ratios of distance to time, which is the specific domain of the harmonic mean rather than the geometric mean. The geometric mean is ideally suited for finding average growth rates, construction of stock indices, and biological growth studies. Using the geometric mean for speed would result in an inaccurate representation of the average rate.

- 24.** (D) Assertion (A) is false, but Reason (R) is true.

Mean deviation is calculated by taking the arithmetic mean of the absolute values of deviations, which involves ignoring the negative signs of the values. While this process correctly defines the measure, the disregard for algebraic signs prevents it from being useful in further mathematical or algebraic treatments. Consequently, the assertion is false because standard deviation is preferred for advanced analysis.

- 25.** (A) It is affected by extreme values.

One of the primary advantages of the median is its robustness against outliers. Unlike the arithmetic mean, the median is a positional average and does not change significantly if extreme values are added or modified. Therefore, being affected by extreme values is not a demerit of the median; rather, it is a characteristic demerit associated with the arithmetic mean and standard deviation.

- 26.** (C) Assertion (A) is true, but Reason (R) is false.

In a positively skewed distribution, the mean and median are indeed greater than the mode because the distribution's tail extends further to the right. However, the reasoning provided is incorrect because the bulk of observations in a positive skew is concentrated on the left side, not the right. The right tail is longer, indicating less frequent but higher value observations.

- 27.** (A) Harmonic Mean

The harmonic mean is the mathematically appropriate measure for averaging rates or ratios involving different measuring units, such as kilometers per hour or price per unit. It

provides a more accurate central value in these scenarios because it is the reciprocal of the arithmetic mean of the reciprocals. Neither the arithmetic nor the geometric mean accounts correctly for these specific relationships.

28. (C) Rs. 34,450

To find the corrected sum, one must first determine the original total. The original sum was 50 employees multiplied by the reported mean of 680, totaling 34,000. Correcting the error involves subtracting the incorrect salary of 450 and adding the correct salary of 900. This adjustment results in a new total of 34,450 for the entire employee group.

29. (B) Mean Deviation

Mean deviation is frequently utilized in economics to study the distribution of income and wealth within a society. Its ability to provide an absolute measure of how far individual data points deviate from the mean or median makes it useful for assessing inequality. While standard deviation is more common in general statistics, mean deviation offers practical insights for socio-economic disparity studies.

30. (C) Geometric Mean

The geometric mean is specifically designed to handle data that grows exponentially or involves compounding, such as investment returns or population growth. It calculates the central tendency by taking the root of the product of all values, which correctly accounts for the cumulative effect of growth rates over time. Using the arithmetic mean would consistently overstate the average growth in such cases.

31. (D) Mean and median are less than the mode.
A distribution with its bulk on the right and a longer tail on the left side is described as being negatively skewed. In such a distribution, the extreme low values pull the arithmetic mean and the median to the left of the peak. Consequently, both the mean and the median will be lower than the mode, which remains at the peak concentration.

32. (D) It is useful in the construction of index numbers.

The geometric mean is highly valued in statistical analysis because it handles ratios

and percentages more effectively than other averages. Its mathematical properties make it especially suitable for constructing index numbers, as it gives equal weight to equal percentage changes. This ensures that the resulting index is not biased by the absolute magnitude of the underlying data points or extreme values.

33. (C) Arithmetic Mean > Geometric Mean > Harmonic Mean

For any set of distinct positive values, a strict mathematical hierarchy exists among the three Pythagorean means. The arithmetic mean always yields the highest value, followed by the geometric mean, with the harmonic mean resulting in the lowest value. If all observations in the dataset are identical, then all three measures of central tendency will be equal to each other.

34. (C) 16 km/hr

The relationship between the three means is defined by the formula where the square of the geometric mean equals the product of the arithmetic and harmonic means. Given an arithmetic mean of 25 and a geometric mean of 20, the calculation is 400 divided by 25. This mathematical operation yields a harmonic mean of 16, satisfying the required statistical relationship for the dataset.

35. (A) P-2, Q-4, R-3, S-1

The formula $(\text{Max} - \text{Min}) / (\text{Max} + \text{Min})$ defines the coefficient of range, while $(Q_3 - Q_1) / (Q_3 + Q_1)$ defines the coefficient of quartile deviation. Standard deviation divided by the mean, expressed as a percentage, is the coefficient of variation. Finally, dividing the mean deviation by the mean gives the coefficient of mean deviation. These relative measures allow for comparisons between datasets.

36. (D) Model A, because a smaller standard deviation means a high degree of consistency.
Standard deviation measures the dispersion or spread of data points around the mean. A smaller value indicates that the observations are clustered closely to the average, reflecting high consistency and homogeneity. In contrast, a larger standard deviation signifies greater variability and less reliability. Therefore, Model

A is more consistent because its data points deviate less from the central value than Model B.

37. (A) P-2, Q-4, R-1, S-3

Dispersion refers to the scatter of individual items from their averages, while range is the simplest absolute measure of dispersion. Quartile deviation is defined as the mid-point of the range between the upper and lower quartiles. Mean deviation is the arithmetic mean of all absolute deviations from the central average. These definitions are fundamental to understanding how variability is measured in statistics.

38. (C) Mean deviation ignores algebraic signs, hence it is not capable of further algebraic treatment.

To calculate mean deviation, the negative signs of deviations are ignored by using absolute values. While this provides a simple measure of variability, it creates a significant mathematical limitation. The omission of algebraic signs prevents the measure from being integrated into more complex statistical formulas or models, making it less useful than standard deviation for advanced data analysis and hypothesis testing.

39. (B) Mean Deviation : It ignores algebraic signs. Mean deviation is calculated by taking the absolute values of the differences between each observation and the central value. This process intentionally ignores the positive or negative direction of the deviation. This is a recognized demerit because it limits the mathematical utility of the measure. Other options are incorrect because they describe merits or misidentify the characteristics of the other statistical measures.

40. (A) Mean and median are greater than mode. In a positively skewed distribution, the presence of extreme values on the high end of the scale pulls the arithmetic mean and the median to the right. As a result, both the mean and the median end up with higher values than the mode, which corresponds to the most frequent value at the distribution's peak. This hierarchy is a fundamental characteristic of right-skewed data.

41. (A) Coefficient of Quartile Deviation : Absolute Measure

The coefficient of quartile deviation is a relative measure of dispersion, not an absolute one, because it is a ratio expressed as a pure number or percentage. Absolute measures, such as range and standard deviation, are expressed in the same units as the original data. Relative measures are designed to allow for the comparison of variability between different datasets with different units or scales.

42. (B) Central Tendency

Central tendency describes the statistical property where data points in a distribution tend to cluster around a central or middle value. Measures such as the mean, median, and mode are used to identify this single representative value for the entire dataset. It is distinct from dispersion, which measures spread, or skewness and kurtosis, which describe the shape and symmetry of the distribution.

43. (C) Both I and II

The arithmetic mean is a rigidly defined and finite value that can be calculated for nearly any dataset containing numerical values. However, its accuracy depends on having a complete set of data; if any single observation is missing or unknown, the mean cannot be computed correctly. Both statements highlight essential properties regarding the definition and calculation requirements of the arithmetic mean in statistics.

44. (C) Quartiles

Quartiles are positional values that divide a sorted dataset into four equal parts, each containing 25% of the total observations. The first quartile (Q1) marks the 25th percentile, the second quartile (Q2) is the median, and the third quartile (Q3) marks the 75th percentile. This method provides insight into the distribution of data across different segments of the entire set.

45. (B) Only II

The first statement is false because the mode is defined as the value occurring most frequently, not less frequently. The second statement is correct, as distributions can have multiple modes (multimodal) if two or more values share

the highest frequency. Mode is a simple indicator of the most common observation in a set, but it is not always a unique or representative value.

46. (C) Measures of Central Tendency

Measures of central tendency, often referred to as averages, are statistical constants that condense a large volume of data into a single representative value. This enables researchers to understand the general significance and central location of the entire dataset efficiently. By providing a focal point, these measures facilitate easier comprehension and comparison of different groups of data without examining every individual item.

47. (A) I and II only

A robust measure of central tendency should be capable of further mathematical treatment and show stability across different samples, meaning it is least affected by sampling fluctuations. The third statement is incorrect because a good measure should ideally not be unduly affected by extreme values, as outliers can distort the representative nature of the average, leading to inaccurate statistical conclusions.

48. (D) $A.M. \times H.M. = (G.M.)^2$

The mathematical relationship between the three classical means for any given set of positive numbers is that the product of the arithmetic mean and the harmonic mean equals the square of the geometric mean. This property indicates that the geometric mean is the geometric average of the arithmetic and harmonic means. This consistency allows statisticians to verify calculations or derive missing measures within a dataset.

49. (B) I and III only

Quartiles divide data into four equal segments, with Q1 being the lower quartile and Q3 being the upper quartile. The second statement is incorrect because the interquartile range specifically calculates the difference between the third and first quartiles, representing the middle 50% of the data. It does not measure the range of values relative to the mean, but rather relative to positional markers.

50. (C) Because speed is expressed as a ratio of two measuring units such as km/hr.

The harmonic mean is the mathematically correct average to use when dealing with rates or ratios that have different units of measurement, such as distance and time. When calculating average speed for segments of a journey, the harmonic mean accounts for the inverse relationship between speed and time, whereas the arithmetic mean would yield a biased and often higher result.

51. (B) I and III only

Skewness is a measure of asymmetry in a distribution, and a coefficient of zero indicates a perfectly symmetrical shape. The second statement is false because, in a positively skewed distribution, the mean and median are typically greater than the mode, not less. This occurs because the long tail on the right side pulls the mean and median toward the higher values of the distribution.

52. (D) The measure of variability in the middle 50% of the distribution.

The interquartile range (IQR) is determined by subtracting the first quartile from the third quartile. It effectively measures the spread of the central portion of the dataset, specifically the middle 50% of observations. By focusing on the center and ignoring the top and bottom 25%, the IQR provides a measure of dispersion that is highly resistant to the influence of outliers.

53. (B) II, III, and IV only

Median is recognized as a position average and is notably unaffected by extreme values. Mode, while identifying the most frequent value, is often considered ill-defined because it does not use all observations and is unsuitable for advanced algebraic treatment. The first statement is false because it swaps the definitions; the arithmetic mean is a calculated average, whereas the median is the positional one.

54. (C) It cannot be calculated when open-end class intervals are present in the data.

Calculating the arithmetic mean requires the exact values of all observations or the midpoints of all class intervals. In the case of open-end classes, such as “under 10” or “over 100,” the

midpoint cannot be determined without making assumptions. Consequently, the arithmetic mean cannot be accurately computed. It is, however, capable of further algebraic treatment and is highly sensitive to outliers.

55. (B) I, II, and IV only

Mean deviation involves calculating the average of absolute deviations, which requires ignoring the algebraic signs of the data. It is a useful tool in economics for analyzing the distribution of wealth and income. However, the omission of algebraic signs makes it mathematically limited and incapable of further advanced algebraic treatment, which is why the third statement in the list is incorrect.

56. (A) It is the arithmetic mean of all the deviations calculated considering their absolute values.

Mean deviation is defined as the average of the absolute differences between each data point and the mean or median. By using absolute values, it provides a measure of the total magnitude of variability without regard to the direction of the deviations. This measure is an absolute measure of dispersion, not a relative one, and it lacks the capacity for advanced mathematical treatment.

57. (A) I, II, III, and IV only

Central tendency measures condense data into a single value to facilitate comparisons using various averages. The geometric mean is restricted to positive values because of its root-based calculation. The fifth statement is incorrect because the arithmetic mean is actually the most stable measure of central tendency and is least affected by sampling fluctuations. Therefore, only the first four statements correctly describe the objectives and characteristics of central tendency and its specific measures.

58. (B) It is always greater than Arithmetic Mean.
This statement is incorrect because, for any set of positive numbers, the arithmetic mean is always greater than or equal to the geometric mean. The geometric mean correctly accounts for compounding and growth but requires positive values to be calculated. Its computation often involves logarithms, making it more complex

than the arithmetic mean, but it never exceeds the arithmetic mean in magnitude.

59. (A) I, II, III, and V only

Harmonic, arithmetic, and geometric means are all appropriately used depending on whether the data consists of rates, uniform units, or growth ratios. Additionally, the median is functionally identical to the 50th percentile. The fourth statement is incorrect because the correct relationship is $A.M. \times H.M. = (G.M.)^2$, not the product of the arithmetic and geometric means equaling the squared harmonic mean.

60. (C) It is capable of further algebraic treatment.
Quartile deviation is a simple and useful measure of dispersion that is resistant to extreme values because it focuses on the middle 50% of the data. However, like the range and mean deviation, it is not capable of further algebraic treatment. This limitation means it cannot be easily combined with other statistical measures or used in advanced mathematical proofs and complex modeling.

61. (A) I, II, III, and IV only

Range lacks sampling stability, mean deviation ignores signs, and standard deviation emphasizes extreme values through squaring. The coefficient of variation is correctly defined as the ratio of standard deviation to mean. However, the fifth statement is incorrect because quartile deviation only uses the first and third quartiles and ignores the values of all other observations in the dataset, unlike the standard deviation.

62. (C) It should be unduly affected by extreme values.

A good measure of central tendency should ideally be representative of the entire dataset and not be significantly distorted by a few outliers. If a measure is unduly affected by extreme values, it can provide a misleading picture of the data's center. Therefore, resistance to outliers is a desirable quality, making the statement that it should be affected a negative trait.

- 63.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

The geometric mean is calculated by taking the n th root of the product of n items, which effectively handles the compounding effect of growth rates. Because the calculation involves multiplication and roots, any zero value makes the product zero, and negative values can lead to imaginary roots. This mathematical foundation explains why the geometric mean is restricted to datasets containing only positive values.

- 64.** (D) Coefficient of Variation

Absolute measures of dispersion, such as range, quartile deviation, and standard deviation, are expressed in the same units as the original data. In contrast, the coefficient of variation is a relative measure. It is a unitless ratio, usually expressed as a percentage, which allows for the comparison of variability between datasets that have different means or different units of measurement entirely.

- 65.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Standard deviation measures the extent to which data points spread out from the mean. When this value is small, it indicates that the individual observations are very close to the average, implying a high degree of uniformity. This relationship between low variability and high consistency explains why standard deviation is a critical tool for assessing the reliability and homogeneity of a distribution.

- 66.** (C) It should be affected much by sampling fluctuations.

A desirable statistical measure should be stable, meaning it should not change drastically when calculated from different samples of the same population. Being highly sensitive to sampling fluctuations is a demerit because it reduces the reliability of the measure for making inferences. Good measures should be rigidly defined, based on all observations, and capable of further mathematical analysis for better utility.

- 67.** (A) Rs. 34,000

The reported arithmetic mean for the 50 employees was Rs. 680. Since the mean is calculated by dividing the total sum by the number of observations, the original (incorrect) sum is found by multiplying the number of employees by the reported mean. Therefore, 50 multiplied by 680 equals 34,000, which represents the sum before the salary error was discovered and corrected.

- 68.** (D) Range

The range is a simple yet effective measure of dispersion used in specific fields where knowing the absolute extremes is critical. In quality control, it helps monitor the variability of production. In finance and meteorology, it tracks the fluctuations in stock prices and temperature over time. Its simplicity and focus on maximum and minimum values make it ideal for these quick-reference applications.

- 69.** (D) Rs. 689

After correcting the data error, the new total sum of salaries was calculated to be Rs. 34,450. To find the corrected arithmetic mean for the group, this total sum is divided by the 50 employees. The resulting calculation, 34,450 divided by 50, yields a corrected average salary of Rs. 689, which accurately reflects the true central tendency of the adjusted payroll data.

- 70.** (C) High degree of consistency and homogeneity of the series.

A small standard deviation indicates that most of the data points in a distribution are located very close to the arithmetic mean. This signifies that there is little variation among the individual observations, making the series highly consistent and homogeneous. It suggests that the average is a very reliable representative of the entire dataset, with few significant outliers or extreme deviations.

- 71.** (B) It would become zero (or cannot be calculated in logarithmic terms).

The geometric mean is calculated by multiplying all the data points together and then taking the root of that product. If any single value in the set is zero, the entire product becomes zero, making the geometric mean zero as well. Furthermore, when using logarithms to

compute the mean, the log of zero is undefined, preventing calculation using that standard method.

- 72.** (B) 25th percentile, 50th percentile, 75th percentile, 100th percentile

Quartiles divide a sorted dataset into four equal parts. The first quartile corresponds to the 25th percentile, identifying the bottom quarter. The second quartile is the 50th percentile, which is the median. The third quartile marks the 75th percentile, and the fourth quartile encompasses the entire set up to the 100th percentile, representing the complete distribution from lowest to highest.

- 73.** (A) Harmonic Mean

When calculating the average speed for a journey where different speeds are maintained over specific distances, the harmonic mean is the most appropriate measure. It accounts for the fact that speed is a rate (distance divided by time). Using the arithmetic mean would lead to an incorrect result because it does not properly weight the time spent at each different speed.

- 74.** (A) P-1, Q-4, R-3, S-2

The arithmetic mean cannot properly average ratios, while the geometric mean is specifically used for compounding effects. The harmonic mean is the standard choice for rates expressed as ratios of two units, such as speed. The mode is selected when identifying the point of maximum concentration is the primary objective. These matches reflect the specific strengths and limitations of each central tendency measure.

- 75.** (A) Because Harmonic Mean is appropriate when values are ratios of two variables with different measures.

Average speed is a rate derived from two different dimensions: distance and time. The harmonic mean is specifically designed to average such rates correctly. It provides the true average speed by considering the reciprocals of the speeds, which effectively accounts for the duration of time spent at each speed. Neither the arithmetic nor the geometric mean provides this mathematically accurate adjustment.

- 76.** (A) P-4, Q-1, R-3, S-2

Mesokurtic distributions have peaks identical to a normal distribution. Leptokurtic distributions are characterized by sharper peaks and fatter tails, while platykurtic distributions feature lower peaks and thinner tails. Skewness is the separate measure that quantifies the degree of distortion from symmetry. These terms describe the essential geometry of frequency distributions in statistics, helping to identify data patterns and outlier frequency.

- 77.** (B) 5%

The coefficient of variation is calculated by dividing the standard deviation by the arithmetic mean and multiplying the result by one hundred percent. If Model A has a mean and standard deviation that result in this ratio, the calculation yields 5%. This relative measure of dispersion allows for the assessment of consistency regardless of the absolute scale of the credit scores being analyzed.

- 78.** (A) P-2, Q-3, R-1, S-4

A zero coefficient signifies a symmetrical distribution. A positive coefficient indicates a positive skew, which often means the bulk of data is on the left. A negative coefficient signifies a negative skew with a longer left tail. When the mean and median are greater than the mode, it further confirms a positive skew, reflecting the pull of the distribution's tail toward higher values.

- 79.** (D) Positive skew

While peak sharpness is technically a measure of kurtosis, in the context of common statistical problems involving loan defaults, a distribution with an extreme peak and a long right tail is often described as having a positive skew. In this scenario, the majority of defaults are low, but a few extreme values pull the distribution's tail to the right, creating asymmetry in the dataset.

- 80.** (D) $\beta_2 > 0$: Leptokurtic distribution

Excess kurtosis, often denoted by β_2 , measures how much the tails of a distribution differ from a normal distribution. A positive excess kurtosis indicates a leptokurtic distribution, which has fatter tails and a sharper peak than the normal curve. A value of zero represents a mesokurtic

(normal) distribution, while a negative value characterizes a platykurtic distribution with thinner tails and a flatter peak.

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CHAPTER 04

Correlation and Regression

NODIA

Oct/Nov 2012

1. A manufacturing unit critically analyzes the statistical relationship between the total hours of machine maintenance (x) and the number of defective items produced (y). For a sampled batch of 20 machines ($n = 20$), the accumulated data yields the following sums:

$$\sum (x_i - \bar{x})(y_i - \bar{y}) = -800$$

$$\text{Variance of } x (\sigma_x^2) = 25$$

$$\text{Variance of } y (\sigma_y^2) = 100$$

$$\text{Means: } \bar{x} = 15, \bar{y} = 50$$

What is the calculated covariance between machine maintenance hours (x) and defective items (y)?

- (A) 40
- (B) -40
- (C) -800
- (D) 25

May/June 2023

2. Consider the following statements regarding the confidence interval of an estimate:

- I. A 65 per cent confidence interval is bounded by calculating $\hat{y} \pm S_e$.
- II. A 95 per cent confidence interval is bounded by calculating $\hat{y} \pm 2S_e$.
- III. The width of confidence intervals is dependent on the standard error of the estimate.
- IV. A noticeably smaller standard error will result in a significantly wider confidence interval.

Which of the statements given above is/are correct?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, III, and IV

Oct/Nov 2005

3. Given the variables and variances from the manufacturing scenario of Question 1, calculate the exact slope (b) of the regression

line utilized to predict the number of defective items based on maintenance hours.

- (A) -1.6
- (B) -0.4
- (C) -8.0
- (D) 1.6

May/June 2018

4. Consider the following statements about correlation and regression:

- I. Correlation functions to measure the strength of a linear relationship.
- II. Regression analysis is utilized to estimate one variable given another.
- III. Multiple regression specifies situations where more than two variables are analyzed.
- IV. A correlation coefficient of +1 guarantees a direct cause-and-effect link.
- V. Scatter diagrams visually represent the structural relationship between paired variables.

Which of the statements given above is/are correct?

- (A) I, II, III, and V only
- (B) I, II, IV, and V only
- (C) II, III, IV, and V only
- (D) I, III, IV, and V only

Oct/Nov 2017

5. Identify the incorrect pair of statistical notation and its operational meaning.

- (A) $\hat{y}$ – The estimated value of the dependent variable.
- (B) n – The total number of observations for each variable.
- (C) a – The mathematical slope of the regression line.
- (D) $\bar{x}$ – The calculated mean of the independent variable.

May/June 2005

6. The HR consultant wishes to construct a reliable 65 per cent confidence interval around

the previously estimated productivity score for the employee who completed exactly 40 hours of training in Question 56. According to standard models, what will be the established interval?

- (A) 34 to 46
- (B) 37 to 43
- (C) 35 to 45
- (D) 38 to 42

Oct/Nov 2022

7. Consider the following statements about statistical data interpretation:

- I. A substantially strong linear relationship corresponds to an 'r' value close to +1 or -1.
- II. A weak linear relationship features an 'r' value that evaluates close to zero.
- III. 'r' successfully measures both linear and curvilinear relationship strengths identically.
- IV. Incorporating heterogeneous data into the sample can instigate a spuriously high correlation.
- V. Derived regression lines must precisely intersect every single point on the scatter diagram.

Which of the statements given above is/are correct?

- (A) I, II, III, and V only
- (B) I, II, and IV only
- (C) II, III, and IV only
- (D) I, III, and V only

May/June 2014

8. Read the following statements and select the correct answer from the options given below:

Statement I: A correlation coefficient of zero conclusively proves that there is no relationship of any kind, including curvilinear, between two variables.

Statement II: Correlation analysis utilizing the coefficient of correlation should be applied only to linear relationships.

- (A) Both Statement I and Statement II are correct.
- (B) Both Statement I and Statement II are incorrect.
- (C) Statement I is correct, but Statement II is incorrect.
- (D) Statement I is incorrect, but Statement II

is correct.

Oct/Nov 2010

9. When establishing a 95 per cent confidence interval for a predicted value $\hat{y}$, which of the following mathematical expressions is most appropriate?

- (A) $\hat{y} \pm S_e$
- (B) $\hat{y} \pm 2S_e$
- (C) $\hat{y} \pm (n - 2) S_e$
- (D) $\hat{y} \pm \frac{S_e}{2}$

May/June 2021

10. The municipal traffic commissioner notices that over the past decade, both the aggregate number of newly registered pets in the city and the number of vehicular traffic accidents have steadily surged. An engaged statistician runs the comparative numbers and determines a correlation coefficient of +0.92 between pet registrations and traffic accidents. Based on core statistical principles, how should the traffic commissioner interpret this high correlation coefficient?

- (A) A tangible increase in pet ownership operates as a direct mechanical cause of traffic accidents.
- (B) A highly visible and strong inverse relationship heavily dominates the interacting variables
- (C) The verified data functionally demonstrates that traffic accidents compel citizens to adopt more pets.
- (D) Spurious correlation where variables rise together without a causal link

Oct/Nov 2009

11. Consider the following statements regarding the linear estimation process:

- I. The underlying estimating equation is formally derived using the least squares method.
- II. The notation $\hat{y}$ symbolizes the actual observed value of the dependent variable.
- III. The standard error is a robust measure quantifying the reliability of the prediction.
- IV. The standard linear estimating equation is formulated as $y = a + bx$.
- V. The y-intercept 'a' signifies the estimated value of y when x equals zero.

Which of the statements given above is/are correct?

- (A) I, III, IV, and V only
- (B) I, II, III, and IV only
- (C) II, III, IV, and V only
- (D) I, II, IV, and V only

May/June 2011

12. Read the following statements and select the correct answer from the options given below:
Statement I: We can be 65 per cent confident that the actual value of y lies strictly between $\hat{y} - 2S_e$ and $\hat{y} + 2S_e$.
Statement II: A small value of the standard error of estimate indicates that the regression predictions are fairly accurate.
- (A) Both Statement I and Statement II are correct.
 - (B) Both Statement I and Statement II are incorrect.
 - (C) Statement I is correct, but Statement II is incorrect.
 - (D) Statement I is incorrect, but Statement II is correct.

Oct/Nov 2014

13. What is the most appropriate reason for calculating the standard error of estimate after developing a linear regression equation?
- (A) To verify whether the basic relationship is linear or curvilinear.
 - (B) To definitively determine if the variables are positively or negatively correlated.
 - (C) To establish the exact cause-and-effect relationship between the two distinct variables
 - (D) To measure the accuracy of predictions based on the line

May/June 2019

14. Identify the correct statement regarding the standard error of estimate.
- (A) It provides the interval within which actual values should lie
 - (B) A large standard error indicates that the underlying predictions are extremely accurate.
 - (C) It is determined by multiplying the observed and estimated values of the dependent variable.
 - (D) It serves as an absolute indicator that spurious correlation is present in the analyzed set

Oct/Nov 2006

15. Identify the incorrect statement about correlation analysis.
- (A) A correlation coefficient of -1 indicates a perfect inverse relationship between variables.
 - (B) A strong direct linear relationship conclusively proves a cause-and-effect connection.
 - (C) The correlation coefficient is inherently unable to measure curvilinear relationships.
 - (D) Spurious correlation can emerge if the sampled data is heterogeneous.

May/June 2016

16. Read the following Assertion (A) and Reason (R) and select the correct answer from the options given below:
Assertion (A): Even if all data points in a scatter diagram lie symmetrically on a perfect circle, the calculated correlation coefficient will be zero.
Reason (R): Correlation analysis is fundamentally constrained to measure only linear relationships and cannot quantify curvilinear relationships.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2018

17. Consider the following statements regarding the technique of least squares:
- I. It ensures the mathematical difference between the scatter diagram points and the regression line is minimal.
 - II. It inherently requires calculating the covariance between the two variables to determine the slope.
 - III. It generates a parabolic curve rather than a straight line to fit all data points perfectly.
- Which of the statements given above is/are correct?
- (A) I and II only

- (B) II and III only
- (C) I and III only
- (D) I, II, and III

May/June 2007

18. Arrange the logical sequence of steps to establish and utilize a simple linear regression equation for prediction:
- I. Calculate the y-intercept (a).
 - II. Determine the estimated value of y using a known value of x .
 - III. Compute the covariance between x and y .
 - IV. Calculate the slope of the line (b).
- (A) III, IV, I, II
 - (B) IV, III, I, II
 - (C) III, I, IV, II
 - (D) I, III, IV, II

Oct/Nov 2025

19. What does the calculated y-intercept value of 15 effectively represent in the practical context of the regional bank's ATM operational cost regression model described in Question 59?
- (A) The baseline cost when the ATM processes zero transactions
 - (B) The absolute maximum possible expenditure for operating an ATM continuously.
 - (C) The incremental cost accrued for every single additional transaction processed.
 - (D) The median deviation parameter when predicting the overarching operational costs of the network

May/June 2012

20. Identify the incorrect statement concerning the variables and models used in forecasting.
- (A) The dependent variable is identified as the exact variable that is being predicted
 - (B) The independent variable serves as the foundational basis of the prediction.
 - (C) The dependent variable is plotted on the horizontal x-axis
 - (D) Multiple regression involves situations where more than two variables come into play.

Oct/Nov 2024

21. Read the following Assertion (A) and Reason (R) and select the correct answer from the options given below:
- Assertion (A): In practical regression analysis,

the line of best fit optimally minimizes the mathematical difference between the points in the scatter diagram and those situated on the line.

Reason (R): The established technique of least squares is expressly employed to arrive at the slope and y-intercept of the regression line to achieve this fit.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2017

22. Consider the following statements regarding variables in regression:
- I. The relationship between years of education and annual income can be analyzed using regression forecasting.
 - II. Multiple correlation occurs specifically when exactly two variables come into play.
 - III. The independent variable consistently forms the foundational basis of the prediction.
- Which of the statements given above is/are correct?
- (A) I and II only
 - (B) I and III only
 - (C) II and III only
 - (D) I, II, and III

Oct/Nov 2023

23. Match the values of the correlation coefficient in List I with their interpretations in List II.
- List I: (Correlation Coefficient)
- P. $r = 1$
 - Q. $r = -1$
 - R. $r = 0$
 - S. Value of r near $+1$ or -1
- List II: (Interpretation)
- 1. Perfect inverse relationship
 - 2. Strong relationship
 - 3. No linear relationship
 - 4. Perfect direct relationship
- (A) P-4, Q-1, R-3, S-2

- (B) P-1, Q-2, R-4, S-3
 (C) P-3, Q-4, R-1, S-2
 (D) P-2, Q-3, R-4, S-1

May/June 2020

24. All of the following highlight a limitation of the correlation coefficient EXCEPT:
 (A) It solely measures the strength of linear relationships.
 (B) It may yield spurious correlation results if data is heterogeneous.
 (C) It restricts variables to demonstrating only direct relationships.
 (D) It indicates mutual movement but does not imply a cause-effect relationship.

Oct/Nov 2015

25. A regional retail bank branch manager wishes to systematically understand the relationship between her customers' credit scores and the total number of loan defaults recorded over the past five years. She graphs a scatter diagram mapping credit scores on the horizontal axis and the number of defaults on the vertical axis. The resultant points form a discernible pattern sloping downwards from left to right. In the manager's analysis, which variable correctly serves as the independent variable?
 (A) The customers' credit scores
 (B) The total number of loan defaults
 (C) The slope vector of the regression line
 (D) The derived standard error of the estimate

May/June 2013

26. Consider the following statements about computing the correlation coefficient (r):
 I. The formula incorporates the standard deviations of both analyzed variables.
 II. The calculation requires determining the covariance between the variables.
 III. It can be computed using aggregated sums like $\sum x$, $\sum y$, and $\sum xy$.
 IV. A negative covariance will inherently result in a negative correlation coefficient.
 Which of the statements given above is/are correct?
 (A) I, II, and III only
 (B) II, III, and IV only
 (C) I, III, and IV only
 (D) I, II, III, and IV

Oct/Nov 2021

27. Match the scatter diagram point patterns in List I with their relationship descriptions in List II.

List I: (Pattern)

- P. Points line up sloping from left to right upwards
 Q. Points line up sloping from left to right downwards
 R. Points form a distinct U-shape curve
 S. Points scatter in a perfect circle

List II: (Description)

1. Inverse relationship
 2. Curvilinear relationship
 3. Zero linear correlation
 4. Direct relationship

- (A) P-4, Q-1, R-2, S-3
 (B) P-1, Q-3, R-2, S-4
 (C) P-4, Q-2, R-1, S-3
 (D) P-2, Q-4, R-3, S-1

May/June 2024

28. The technique of least squares ensures that the line of best fit minimizes the difference between the scatter diagram points and the line. All of the following are true about this regression line EXCEPT:

- (A) It is drawn to pass as close to all data points as possible.
 (B) It generally has points distributed on both sides to fit the data.
 (C) It is utilized to derive the estimated value of the dependent variable for the sample
 (D) It ensures the correlation coefficient is either +1 or -1

Oct/Nov 2008

29. Consider the following statements about scatter diagrams:

- I. They plot distinct points using data pairs directly as coordinates.
 II. A direct relationship portrays points sloping upwards from left to right.
 III. An inverse relationship displays points sloping downwards from left to right.
 IV. They are strictly limited to depicting linear relationships, omitting curvilinear ones entirely.

Which of the statements given above is/are correct?

- (A) I, II, and III only
 (B) II, III, and IV only

- (C) I, II, and IV only
(D) I, III, and IV only

May/June 2006

- 30.** Identify the correct pair of term and its description.
(A) Dependent variable – The variable that establishes the foundational basis of the prediction.
(B) Scatter diagram – A graph showing plotted coordinates of data pairs
(C) Independent variable – The specific variable that is being predicted by the equation.
(D) Spurious correlation – A high correlation coefficient that guarantees a direct cause-effect relationship

Oct/Nov 2013

- 31.** All of the following statistical measures are necessary to compute the slope ‘ b ’ of the linear regression equation EXCEPT:
(A) The covariance between the variables X and Y
(B) The variance of the independent variable X
(C) The standard error of the estimate
(D) The mean of the variables X and Y

May/June 2015

- 32.** Identify the incorrect pair of concept and its characteristic.
(A) $r = 0$ – Confirms the total absence of any curvilinear relationship.
(B) $r = -1$ – Represents a perfect inverse relationship.
(C) Least squares – Technique utilized to minimize differences between plotted points and the line.
(D) 95 per cent confidence interval – Statistical range defined mathematically as $\hat{y} \pm 2S_e$.

Oct/Nov 2019

- 33.** Which of the following best defines the primary objective of “Regression Analysis”?
(A) Isolating the standard deviation to determine data dispersion within the entire population
(B) Plotting observed coordinates on a graph solely to observe data scatter.
(C) Measuring the absolute strength of a relationship between two distinct variables.

- (D) Fitting a line to estimate one variable given another

May/June 2009

- 34.** In the context of a college predicting a graduation GPA based on an entrance exam score, which of the following terms best describes the entrance exam score?
(A) The primary dependent variable
(B) The y-intercept
(C) Independent variable
(D) The standard error

Oct/Nov 2011

- 35.** Arrange the following steps in the correct chronological order to calculate the standard error of estimate (S_e) using its definitional concept:
I. Square the differences obtained.
II. Sum all the squared differences.
III. Determine the difference between the observed y and the estimated $\hat{y}$.
IV. Divide by $n - 2$ and calculate the square root.
(A) III, I, II, IV
(B) I, III, II, IV
(C) III, II, I, IV
(D) II, III, I, IV

May/June 2010

- 36.** Match the statistical terms in List I with their appropriate definitions in List II.
List I: (Statistical Term)
P. Dependent variable
Q. Independent variable
R. Trend Analysis
S. Standard error of the estimate
List II: (Definition)
1. Variable that is the basis of prediction
2. Measure which tells us how good the prediction is
3. The type of relationships – straight line, curvilinear, parabola, circle, etc.
4. The variable that is predicted
(A) P-4, Q-1, R-3, S-2
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-2, R-4, S-1
(D) P-2, Q-3, R-1, S-4

Oct/Nov 2007

37. Match the mathematical formulas in List I with their corresponding statistical parameters in List II.

List I: (Mathematical Formula)

- P. $\bar{y} - b\bar{x}$
 Q. $\frac{\text{cov}(X, Y)}{\sigma_x^2}$
 R. $\sqrt{\frac{\sum (y - \hat{y})^2}{n - 2}}$
 S. $\frac{\text{cov}(X, Y)}{\sigma_x \sigma_y}$

List II: (Statistical Parameter)

1. Coefficient of correlation (r)
 2. Standard error of estimate (S_e)
 3. y-intercept (a)
 4. Slope of the line (b)
- (A) P-3, Q-4, R-2, S-1
 (B) P-4, Q-3, R-1, S-2
 (C) P-1, Q-2, R-3, S-4
 (D) P-2, Q-1, R-4, S-3

May/June 2025

38. Match the paired variables in List I with the likely relationship observed in List II.

List I: (Variable Pair)

- P. Time spent exercising and weight gain
 Q. Number of years of education and annual income
 R. Entrance exam score and graduation GPA
 S. Rise in rice consumption and rise in road accidents

List II: (Likely Relationship)

1. Inverse relationship
 2. Direct relationship indicating academic progression
 3. Direct relationship indicating career success
 4. Spurious correlation
- (A) P-1, Q-3, R-2, S-4
 (B) P-2, Q-4, R-1, S-3
 (C) P-4, Q-1, R-3, S-2
 (D) P-3, Q-2, R-4, S-1

Oct/Nov 2016

39. Identify the correct pair of statistical symbol and its mathematical definition.

- (A) $b = \frac{\text{cov}(X, Y)}{\sigma_y^2}$
 (B) $a = \bar{x} - b\bar{y}$
 (C) $S_e = \sqrt{\frac{\sum (y - \hat{y})^2}{n - 1}}$

$$(D) r = \frac{\text{cov}(X, Y)}{\sigma_x \sigma_y}$$

May/June 2022

40. Consider the following statements regarding foundational statistical components:

- I. Covariance is a measure that indicates how two variables change together.
- II. The variance is fundamentally required for both variables to locate the slope ' b '.
- III. The calculated mean of x and y are mandatory to compute the y-intercept.
- IV. The total number of observations in the set is typically denoted by N or n .

Which of the statements given above is/are correct?

- (A) I, II, and III only
 (B) I, III, and IV only
 (C) II, III, and IV only
 (D) I, II, and IV only

Oct/Nov 2020

41. Consider the following statements regarding standard formulas and their applications:

- I. $r = \frac{\text{cov}(X, Y)}{\sigma_x \sigma_y}$
- II. $b = \frac{\text{cov}(X, Y)}{\sigma_x^2}$
- III. $a = \bar{y} - b\bar{x}$
- IV. $S_e = \sqrt{\frac{\sum (y - \hat{y})^2}{n - 2}}$

- V. The denominator $n - 2$ in the standard error formula accounts for the two parameters previously estimated.

Which of the statements given above is/are correct?

- (A) I, II, III, and IV only
 (B) II, III, IV, and V only
 (C) I, III, IV, and V only
 (D) I, II, III, IV, and V

May/June 2008

42. Consider the following statements regarding core correlation properties:

- I. The mathematical sign of the correlation coefficient ' r ' dictates the sign of the slope ' b '.
- II. The calculated value of ' r ' cannot mathematically exceed the absolute limit of 1.
- III. Data points perfectly aligned on a linear slope will render an $r = 1$ or $r = -1$.

IV. Spurious correlation signifies a relationship where variables align predictably but lack causal interaction.

V. A zero correlation coefficient implies the scatter diagram exclusively displays a perfect U-shape curve.

Which of the statements given above is/are correct?

- (A) I, II, III, and IV only
- (B) II, III, IV, and V only
- (C) I, III, IV, and V only
- (D) I, II, IV, and V only

May/June 2016

43. Read the following Assertion (A) and Reason (R) and select the correct answer from the options given below:

Assertion (A): A correlation coefficient of +1 between the rise in rice consumption and the rise in road accidents indicates that consuming rice causes traffic accidents.

Reason (R): The coefficient of correlation strictly measures the strength of a linear relationship and does not inherently indicate any cause-and-effect relationship between the two variables.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2009

44. Read the following Assertion (A) and Reason (R) and select the correct answer from the options given below:

Assertion (A): A chosen sample that is heavily heterogeneous can give rise to a higher correlation coefficient value even when no actual correlation exists.

Reason (R): This specific type of misleading statistical occurrence is formally defined as an inverse relationship.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

May/June 2023

45. If the municipal statistician in Question 10 subsequently attempts to fit a rigorous regression line to actively predict future traffic accidents based strictly on pet registrations, why might the resulting predictions prove entirely useless for actionable traffic control policy?

- (A) The standard error of the estimate will inherently manifest as a negative integer in the calculation
- (B) The robust technique of least squares is mathematically inapplicable to direct relationships.
- (C) The independent variable lacks a causal basis to predict the dependent one
- (D) Linear regression lines remain exclusively valid and operational for inverse relationships.

Oct/Nov 2018

46. Read the following Assertion (A) and Reason (R) and select the correct answer from the options given below:

Assertion (A): A 95 per cent confidence interval is mathematically calculated by taking the estimated variable value and exclusively adding or subtracting exactly one standard error of estimate.

Reason (R): A comparatively small value of standard error indicates that the predictions derived from the data are fairly accurate.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2007

47. Which of the following visual representation tools helps to obtain a good idea about the relationship between two variables?
- (A) Trend Analysis Graph
 - (B) Scatter Diagram
 - (C) Multiple Regression Chart
 - (D) Coefficient Matrix

Oct/Nov 2025

48. Which of the following accurately defines the independent variable in the context of statistical modeling?
- (A) The variable that is being predicted
 - (B) The measure of the strength of a relationship
 - (C) The variable that is the basis of prediction
 - (D) The difference between observed and estimated values

May/June 2012

49. The value of the coefficient of correlation always lies between which of the following ranges?
- (A) 0 and 1
 - (B) -1 and 0
 - (C) -1 and 1
 - (D) -100 and 100

Oct/Nov 2014

50. What confidence level is associated with an interval bounded by the estimated value minus the standard error and the estimated value plus the standard error?
- (A) 50 per cent
 - (B) 65 per cent
 - (C) 90 per cent
 - (D) 95 per cent

May/June 2019

51. What is the fundamental principle behind the technique of least squares in regression analysis?
- (A) Eliminating all variables that do not show a perfect correlation
 - (B) Drawing a straight line that strictly passes through the highest and lowest data points
 - (C) Minimizing the squared differences between observed points and the line
 - (D) Maximizing the standard error of the estimate to widen the confidence interval

Oct/Nov 2006

52. How is the slope 'b' mathematically derived in the standard linear regression model?
- (A) By multiplying the covariance of X and Y by the standard deviation of X
 - (B) By subtracting the mean of X from the mean of Y
 - (C) By calculating the square root of the sum of squared errors
 - (D) By dividing the covariance of X and Y by the variance of X

May/June 2021

53. Identify the correct statement regarding the coefficient of correlation.
- (A) It quantifies the extent to which two variables are curvilinearly related to each other
 - (B) A value closer to zero indicates a highly reliable cause-effect relationship
 - (C) It measures the linear relationship between two variables
 - (D) A negative value signifies that both variables increase in tandem

Oct/Nov 2010

54. If the bank manager from Question 25 resolves to precisely estimate the probable number of defaults for a prospective customer possessing a specific credit score of 750, which foundational statistical technique is she utilizing?
- (A) Spurious correlation methodology analysis
 - (B) Multiple Variable Correlation
 - (C) Absolute Determination Profiling
 - (D) Least squares regression

May/June 2005

55. Utilizing the dataset parameters provided in the manufacturing scenario of Question 1, what is the precise coefficient of correlation (r) for this operational data?
- (A) -0.80
 - (B) 0.80
 - (C) -0.40
 - (D) -0.16

Oct/Nov 2022

56. An HR consultant at a multinational corporation investigates whether the cumulative number of training hours completed by employees affects their final productivity scores. After compiling the data, the consultant derives a linear regression equation of $y = 20 + 0.5x$, where

x represents training hours and y denotes the productivity score. The standard error of estimate (S_e) evaluates to 3. If a particular employee successfully completes 40 hours of training, what is their estimated productivity score ($\hat{y}$)?

- (A) 20
- (B) 40
- (C) 60
- (D) 80

May/June 2018

57. If the computed standard error of estimate (S_e) in the consultant's HR study in Question 56 was precisely 0 instead of 3, what would this mathematically imply about the initial scatter diagram of training hours and productivity scores?

- (A) All data points would lie exactly on the regression line
- (B) All plotted points would randomly scatter with zero identifiable pattern.
- (C) The points would structurally conform to the shape of a perfect circle
- (D) The regression line would possess a slope evaluated perfectly at zero.

Oct/Nov 2016

58. If the municipal statistician formally plots a scatter diagram of the pet and accident data in Question 10 yielding the +0.92 coefficient, what visual pattern will unequivocally emerge?

- (A) Data points closely scattered around an imaginary line sloping downwards from left to right.
- (B) Data points closely scattered around an imaginary line sloping upwards from left to right.
- (C) Data points seamlessly forming a distinct curvilinear, parabolic U-shape.
- (D) Data points scattered completely arbitrarily across all graph quadrants.

May/June 2014

59. A regional cooperative bank meticulously analyzes the operational cost (y , in thousands of rupees) of its ATM network based on the total volume of transactions processed (x , scaled in hundreds). Using accumulated data from 10 distinct ATMs, the bank deduces the following regression parameters: y-intercept (a) = 15, slope (b) = 2.5, and standard error

of estimate (S_e) = 4. For an individual ATM actively processing 30 hundred transactions ($x = 30$), what is the reliably estimated operational cost ($\hat{y}$) evaluated in thousands of rupees?

- (A) 60
- (B) 75
- (C) 90
- (D) 105

Oct/Nov 2007

60. If the regional bank executives from Question 59 demand to be 95 per cent confident in their upcoming budget allocation for the specific ATM processing 30 hundred transactions, what precise interval of operational costs (in thousands of rupees) should they mathematically prepare for?

- (A) 86 to 94
- (B) 82 to 98
- (C) 75 to 105
- (D) 80 to 100

May/June 2025

61. Identify the correct statement concerning relationships depicted in scatter diagrams.

- (A) A line sloping downward from the top left to the bottom right indicates a direct relationship
- (B) One variable increases while the other variable decreases
- (C) A widely scattered, patternless set of points suggests a strong linear relationship.
- (D) A direct relationship implies that as one variable decreases, the other increases.

Oct/Nov 2019

62. Identify the incorrect statement regarding the linear regression line.

- (A) The slope of the line ' b ' is restricted to being a positive numerical value.
- (B) The equation of the line used to predict values of y is $y = a + bx$.
- (C) The generated line should pass close to all points to appropriately fit the data.
- (D) The point where the regression line crosses the y-axis is designated as the y-intercept.

May/June 2009

63. Identify the incorrect statement related to standard error and confidence intervals.

- (A) A 95 per cent confidence interval spans a

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wider range than a 65 per cent confidence interval.

- (B) The standard error definitional formula divides the sum of squared differences by $n - 2$.
- (C) A small standard error value denotes that the regression estimates are fairly accurate.
- (D) Calculating $\hat{y} \pm 2S_e$ yields a 65 per cent confidence interval.

Oct/Nov 2011

64. All of the following statistical components are directly visible in the alternative calculation formula for the standard error of estimate (S_e) EXCEPT:
- (A) The total number of observations minus two
 - (B) The variance of the independent variable x
 - (C) The sum of the squared observed y values
 - (D) The sum of the product of x and y

May/June 2010

65. A scatter diagram is highly useful for visualizing all of the following relationships EXCEPT:
- (A) Multiple correlation involving three or more variables
 - (B) Direct linear relationship between two correlated variables
 - (C) Inverse linear relationship
 - (D) Curvilinear relationship

Oct/Nov 2024

66. What is the most appropriate interpretation of a statistical finding where the annual consumption of rice and the number of road accidents both increase over a 20-year period, yielding a correlation coefficient close to 1?
- (A) Spurious correlation where variables rise without a causal link
 - (B) Increased rice consumption is the underlying cause of rising road accidents.
 - (C) Rising road accidents induce the population to consume more rice.
 - (D) The data represents a perfectly valid multiple regression scenario for these parameters

May/June 2017

67. Read the following statements and select the correct answer from the options given below:
- Statement I: A scatter diagram plotting time spent exercising and weight gain over a given period generally indicates an inverse relationship.
- Statement II: In regression analysis, the specific variable that is predicted is termed the independent variable.
- (A) Both Statement I and Statement II are correct.
 - (B) Both Statement I and Statement II are incorrect.
 - (C) Statement I is correct, but Statement II is incorrect.
 - (D) Statement I is incorrect, but Statement II is correct.

Oct/Nov 2005

68. Read the following statements and select the correct answer from the options given below:
- Statement I: The y-intercept ' a ' signifies the exact point where the linear regression line crosses the y-axis.
- Statement II: The slope ' b ' indicates whether the regression line slopes from left to right, or from right to left based on its positive or negative sign.
- (A) Both Statement I and Statement II are correct.
 - (B) Both Statement I and Statement II are incorrect.
 - (C) Statement I is correct, but Statement II is incorrect.
 - (D) Statement I is incorrect, but Statement II is correct.

May/June 2020

69. Consider the following statements regarding the limitations of the coefficient of correlation:
- I. It is designed to measure only linear relationships between variables.
 - II. It requires the obtained data to be homogeneous to prevent spurious correlation.
 - III. A value calculated to be close to 1 indicates a definitive cause-and-effect relationship.
- Which of the statements given above is/are correct?
- (A) I and II only
 - (B) II and III only

- (C) I and III only
(D) I, II, and III

Oct/Nov 2015

- 70.** Consider the following statements about the standard error of estimate:
- It determines the differential variance between the observed and estimated values of y .
 - It utilizes a formula dividing the squared differences by $n - 2$.
 - It assists in establishing reliable confidence intervals for subsequent predictions.
- Which of the statements given above is/are correct?
- (A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2013

- 71.** Consider the following statements regarding spurious correlation:
- It is a phenomenon that can arise if the chosen sample is notably heterogeneous.
 - It reflects a situation where statistical correlation exists without any actual logical connection.
 - It inevitably results in a correlation coefficient value of exactly zero.
- Which of the statements given above is/are correct?
- (A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2021

- 72.** Consider the following statements about the linear regression equation $y = a + bx$:
- The symbol ' y ' typically represents the dependent variable.
 - The symbol ' x ' signifies the independent variable.
 - The parameter ' a ' represents the slope of the regression line.
 - The parameter ' b ' dictates the direction of the line's slant.
- Which of the statements given above is/are correct?
- (A) I, II, and III only
(B) I, II, and IV only

- (C) II, III, and IV only
(D) I, III, and IV only

May/June 2024

- 73.** What describes the study of the relationship when more than two variables come into play in statistical analysis?
- (A) Multiple Correlation or Regression
(B) Simple linear regression analysis of variables
(C) Curvilinear Relationship Analysis
(D) Standard error estimation for datasets

Oct/Nov 2008

- 74.** What does the standard error of the estimate primarily measure?
- (A) The degree to which variables are linearly related
(B) The exact cause-and-effect relationship between variables
(C) The covariance between the dependent and independent variables
(D) How good the prediction based on the line of best fit is

May/June 2006

- 75.** What does a correlation coefficient value of zero indicate regarding the relationship between two variables?
- (A) There is a perfect inverse relationship between the variables
(B) No linear relationship exists, but a non-linear one might
(C) There is a strong direct relationship between the variables
(D) The variables have identical standard deviations and means

Oct/Nov 2017

- 76.** In the regression equation utilized to predict values, denoted as $y = a + bx$, what does the symbol ' a ' represent?
- (A) The y-intercept
(B) The slope of the line
(C) The independent variable
(D) The covariance

May/June 2008

- 77.** Which scenario represents the statistical concept of spurious correlation?
- (A) A high correlation between variables without a causal link
(B) A perfectly horizontal line on a scatter

diagram indicating zero correlation

- (C) Data points forming a perfect U-shape indicating a curvilinear relationship
- (D) A regression line where the slope is identically equal to the y-intercept

Oct/Nov 2013

78. Why might a scatter diagram show points forming a perfect circle, yet yield a correlation coefficient of zero?
- (A) The standard error is too large to measure accurately
 - (B) The correlation coefficient only measures linear relationships
 - (C) The variables are entirely independent with no relationship at all
 - (D) The variance of the dependent variable cancels out the total covariance

May/June 2015

79. Identify the correct statement about regression analysis.
- (A) It relies on generating a trend line that connects all data points chronologically.
 - (B) It is strictly limited to instances involving more than three interdependent variables.
 - (C) It inherently proves the mechanical cause-and-effect link between the variables.
 - (D) It is used to estimate one variable when a value of the other is given.

Oct/Nov 2012

80. Based on the downward sloping pattern observed in the manager's scatter diagram from Question 25, what specific kind of relationship exists between the credit scores and loan defaults?
- (A) A perfect direct relationship
 - (B) A highly visible curvilinear relationship
 - (C) An inverse relationship
 - (D) An absolute absence of a linear relationship

ANSWERS

- 1.** (B) -40
To determine the covariance between machine maintenance hours and the number of defective items, the standard formula dividing the sum of the product of deviations from their respective means by the total number of observations is applied. Given the sum is negative eight hundred and the sample size is twenty, dividing these specific values results in negative forty.
- 2.** (A) I, II, and III only
Standard statistical theory defines confidence intervals based on the standard error of the estimate. A sixty-five percent confidence interval is bounded by plus or minus one standard error, while a ninety-five percent interval uses two standard errors. The interval width relies on the standard error, meaning a smaller error produces a narrower, not wider, confidence interval for estimates.
- 3.** (A) -1.6
To calculate the exact slope of the regression line, the covariance between the two variables is divided by the variance of the independent variable. Using the manufacturing data provided, the covariance of negative forty is divided by the maintenance hours variance of twenty-five. This mathematical operation yields a result of negative one point six for the slope coefficient.
- 4.** (A) I, II, III, and V only
Correlation measures linear relationship strength, while regression estimates one variable from another. Multiple regression involves more than two variables, and scatter diagrams visually represent paired data. However, a high correlation coefficient does not prove a cause-and-effect link. Therefore, the first, second, third, and fifth statements accurately describe these core statistical concepts and their practical applications in analysis.
- 5.** (C) a – The mathematical slope of the regression line.
Statistical notation in regression models follows specific rules. The symbol representing the estimated value of the dependent variable is denoted as $\hat{y}$, while n represents the total observations. The mean of the independent variable is indicated by $\bar{x}$. However, the y -intercept is denoted by the letter a , while the slope of the line is correctly represented by b .
- 6.** (B) 37 to 43
Applying the provided regression equation for forty hours of training gives an estimated productivity score of forty. To construct a sixty-five percent confidence interval, one standard error of estimate is added to and subtracted from this point estimate. Since the standard error is three, the resulting range for the employee's productivity score lies between thirty-seven and forty-three.
- 7.** (B) I, II, and IV only
Linear relationship strength is represented by correlation values near positive or negative one, while values near zero indicate weakness. Spurious correlation can occur when using heterogeneous data. However, correlation coefficients only measure linear patterns, not curvilinear ones. Furthermore, regression lines aim to minimize overall distance from points rather than passing through every single coordinate on a scatter diagram.
- 8.** (D) Statement I is incorrect, but Statement II is correct.
The correlation coefficient specifically measures the strength and direction of linear relationships between two variables. A value of zero indicates the absence of a linear connection, yet a strong non-linear or curvilinear relationship could still exist. Consequently, it is incorrect to assume no relationship of any kind exists based solely on a zero coefficient, as the tool is limited.

9. (B) $\hat{y} \pm 2S_e$

In simple linear regression, confidence intervals provide a range where the actual value of the dependent variable is expected to fall. For a ninety-five percent level of confidence, the standard practice involves taking the estimated value and adding or subtracting twice the standard error of the estimate. This range accounts for the variability in the observed data points.

10. (D) Spurious correlation where variables rise together without a causal link

A high correlation between pet registrations and traffic accidents exemplifies a situation where two variables move together due to external factors rather than a direct link. This phenomenon, known as spurious correlation, occurs when statistics show a strong relationship between logically unrelated variables. It highlights the principle that correlation between variables does not imply that one causes the other.

11. (A) I, III, IV, and V only

The least squares method derives the estimating equation, where a represents the intercept and b is the slope. The standard error quantifies prediction reliability. While $\hat{y}$ is the estimated value, the actual observed value is simply y . The intercept specifically indicates the estimated y value when x is zero. These components together form the foundational linear regression model structure.

12. (D) Statement I is incorrect, but Statement II is correct.

The standard error of estimate serves as a measure of the accuracy of predictions made using a regression equation. A smaller standard error indicates that data points are closer to the regression line, leading to more precise estimates. Regarding confidence levels, sixty-five percent confidence is associated with one standard error, while two standard errors correspond to ninety-five percent confidence.

13. (D) To measure the accuracy of predictions based on the line

The primary objective of calculating the standard error of estimate is to assess the reliability of the regression model. It quantifies

the dispersion of actual data points around the fitted regression line. By measuring this deviation, researchers can determine how accurately the independent variable predicts the dependent variable, allowing them to establish confidence intervals for any future predicted values.

14. (A) It provides the interval within which actual values should lie

The standard error of estimate provides a statistical range within which the actual values of the dependent variable are likely to fall. Unlike the correlation coefficient, which measures relationship strength, the standard error focuses on the accuracy of predictions. A smaller error indicates higher precision, meaning the observed data points reside very close to the calculated linear regression line.

15. (B) A strong direct linear relationship conclusively proves a cause-and-effect connection.

While correlation analysis provides insights into the linear relationship between variables, it has specific limitations. A coefficient of negative one indicates a perfect inverse relationship, and the tool cannot quantify curvilinear patterns. Most importantly, a strong linear relationship never proves a cause-and-effect connection between variables. Spurious results can also arise if the sampled data consists of heterogeneous groups.

16. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Correlation analysis is mathematically designed to measure only the strength and direction of linear relationships. Even if data points form a perfect geometric shape like a circle, the calculated coefficient will be zero because the pattern is non-linear. This illustrates that the lack of a linear relationship does not necessarily mean the variables are independent or have no pattern.

17. (A) I and II only

The least squares technique is used to find the line that best fits the data by minimizing the sum of the squared vertical distances between the points and the line. This method requires calculating the covariance and the variance

of the independent variable to determine the slope. It produces a straight line, which is used for simple linear regression analysis.

18. (A) III, IV, I, II

Establishing a regression model for prediction follows a logical mathematical sequence. First, the covariance between the variables is computed. Next, this value is used to determine the slope of the line. The y-intercept is then calculated using the means of both variables. Finally, these parameters are combined into the regression equation to estimate the dependent variable for given values.

19. (A) The baseline cost when the ATM processes zero transactions

In the context of the operational cost model for ATMs, the y-intercept represents the fixed or baseline expenditure incurred regardless of activity. Even if zero transactions are processed, the model estimates a cost of fifteen thousand rupees. This intercept value is essential for defining the starting point of the linear relationship before the variable cost, represented by the slope, is added.

20. (C) The dependent variable is plotted on the horizontal x-axis

Statistical modeling involves distinguishing between different types of variables. The independent variable acts as the basis for the prediction, while the dependent variable is the one being estimated. In graphical representations, the independent variable is placed on the horizontal x-axis, and the dependent variable is on the vertical y-axis. Multiple regression is used when several independent variables are involved.

21. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

The line of best fit in regression analysis is determined by minimizing the total squared deviations between the actual data points and the estimated points on the line. The least squares technique provides the mathematical framework to calculate the slope and y-intercept required for this optimal fit. This ensures that the resulting regression equation provides the most accurate possible linear predictions.

22. (B) I and III only

Regression analysis is an effective tool for forecasting relationships between variables, such as how education levels might predict annual income. In this process, the independent variable provides the foundation for making predictions about the dependent variable. Multiple correlation refers to relationships involving more than two variables, so it does not apply when only exactly two variables are under statistical consideration.

23. (A) P-4, Q-1, R-3, S-2

The correlation coefficient describes the linear relationship between variables. A value of positive one indicates a perfect direct relationship, while negative one represents a perfect inverse relationship. A coefficient of zero signifies no linear relationship at all. Values nearing positive or negative one suggest a strong connection, showing how closely the data points align with a straight line on a scatter diagram.

24. (C) It restricts variables to demonstrating only direct relationships.

The correlation coefficient has distinct limitations, such as only measuring linear relationships and potentially producing spurious results from heterogeneous data. It indicates how variables move together but never proves that one causes the change in the other. Crucially, the coefficient can represent both direct and inverse relationships, meaning it does not restrict variables to only showing one specific type of link.

25. (A) The customers' credit scores

In regression analysis, the independent variable is the one used as the predictor or the basis for the estimation. In the manager's study of credit scores and loan defaults, credit scores are plotted on the horizontal axis to see how they influence defaults. Therefore, credit scores function as the independent variable, while the resulting number of defaults is the dependent variable.

26. (D) I, II, and III and IV

Calculating the correlation coefficient involves several mathematical components. It requires the covariance between the two variables as

well as their individual standard deviations. Alternatively, it can be derived using aggregated sums of the variables and their products. Because the covariance is the numerator in the formula, its mathematical sign directly determines whether the resulting correlation coefficient is positive or negative.

27. (A) P-4, Q-1, R-2, S-3

Scatter diagrams visually depict the nature of relationships between two variables. Points sloping upwards from left to right indicate a direct relationship, while those sloping downwards show an inverse relationship. Curvilinear patterns, such as U-shapes, represent non-linear connections. A pattern forming a perfect circle or showing no discernible direction suggests a zero linear correlation between the independent and the dependent variables.

28. (D) It ensures the correlation coefficient is either +1 or -1

The regression line generated by the least squares method is designed to fit the data points as closely as possible by minimizing deviations. It is primarily used to estimate values of the dependent variable for the given sample. While the line represents the average relationship, it does not guarantee that the correlation coefficient will be a perfect positive or negative one.

29. (A) I, II, and III only

Scatter diagrams are essential tools for visualizing the relationship between paired data points. They use coordinates to plot individual observations, allowing researchers to see if a relationship is direct or inverse. While they can effectively display both linear and non-linear patterns, such as curves, they are not limited to showing only straight lines. This makes them highly versatile for initial data analysis.

30. (B) Scatter diagram – A graph showing plotted coordinates of data pairs

Understanding statistical terms is vital for accurate data analysis. A scatter diagram is a graphical tool used to plot the coordinates of data pairs, revealing the relationship between variables. The independent variable is the predictor, while the dependent variable is the one being predicted. Spurious correlation refers

to a high correlation that lacks a logical cause-and-effect link between the two variables.

31. (C) The standard error of the estimate

Calculating the slope coefficient in a simple linear regression equation requires several key statistical measures. These include the covariance between the independent and dependent variables, the variance of the independent variable, and the means of both variables. The standard error of the estimate is a separate measure calculated after the regression line is established to assess the accuracy of the predictions.

32. (A) $r = 0$ – Confirms the total absence of any curvilinear relationship.

Correlation and regression involve specific principles. A coefficient of negative one represents a perfect inverse relationship, while the least squares technique minimizes differences between points and the fitted line. A ninety-five percent confidence interval is calculated as $\hat{y}$ plus or minus two standard errors. However, a zero correlation only confirms the lack of a linear relationship, not a curvilinear one.

33. (D) Fitting a line to estimate one variable given another

The primary goal of regression analysis is to develop a mathematical model that fits a line to a set of data points. This model is then used to estimate or predict the value of a dependent variable based on the known value of an independent variable. It goes beyond simply measuring relationship strength to provide a functional tool for predictive modeling.

34. (C) Independent variable

In statistical modeling, the variable used to make a prediction is known as the independent variable. In the scenario where a college uses an entrance exam score to estimate a student's future graduation GPA, the exam score serves as the foundational basis for the calculation. Consequently, the entrance exam score is classified as the independent variable, while the GPA is the dependent variable.

35. (A) III, I, II, IV

To compute the standard error of estimate, one must first find the difference between each observed value and its corresponding predicted value on the regression line. These differences are then squared to eliminate negative signs and summed together. This total is divided by the degrees of freedom, and the square root is taken to return the measure to the original units.

36. (A) P-4, Q-1, R-3, S-2

Statistical terms have precise definitions in the context of data analysis. The variable being predicted is the dependent variable, while the predictor is the independent variable. Trend analysis examines different types of relationships, including linear and curvilinear patterns. The standard error of the estimate serves as a metric to evaluate how well the regression line predicts the values of the dependent variable.

37. (A) P-3, Q-4, R-2, S-1

Different statistical parameters are calculated using specific mathematical formulas. The y-intercept is found by subtracting the product of the slope and the mean of x from the mean of y. The slope is the ratio of covariance to the variance of x. Prediction accuracy is measured by the standard error formula, while the correlation coefficient relates covariance to the product of standard deviations.

38. (A) P-1, Q-3, R-2, S-4

Variable pairs often exhibit different types of statistical relationships. Exercise and weight gain usually show an inverse relationship, while education and income or exam scores and GPA typically show direct relationships. However, some variables, such as rice consumption and road accidents, may show a high correlation that lacks any logical causal connection, which is formally categorized as a spurious correlation in statistics.

39. (D) $r = \frac{\text{cov}(X, Y)}{\sigma_x \sigma_y}$

The coefficient of correlation is a dimensionless index that quantifies the linear relationship between two variables. Mathematically, it is defined as the covariance of the two variables divided by the product of their individual

standard deviations. This formula ensures that the resulting value remains within the range of negative one to positive one, providing a standardized measure of both strength and direction.

40. (B) I, III, and IV only

Covariance measures how two variables change in relation to each other. To find the y-intercept, the calculated means of both the independent and dependent variables are required. The sample size is represented by the notation n. While the variance of the independent variable is needed for the slope, the variance of the dependent variable is not used in the slope calculation formula itself.

41. (D) I, II, III, IV, and V

Regression analysis relies on a set of standardized formulas to determine model parameters. These include the correlation coefficient, the slope of the line, and the y-intercept. The standard error of the estimate uses a denominator of n minus two to account for the two parameters, a and b, already estimated. Together, these formulas provide a comprehensive framework for linear prediction and evaluation.

42. (A) I, II, III, and IV only

Correlation coefficients have unique properties, such as being limited to the range between negative one and positive one. The sign of the coefficient always matches the sign of the regression slope. Perfect linear alignment results in values of one or negative one. While zero correlation indicates no linear link, it does not mean the data points must exclusively form a perfect U-shape curve.

43. (D) Assertion (A) is false, but Reason (R) is true.

The coefficient of correlation measures how closely two variables follow a linear pattern but does not establish why they move together. A high correlation between unrelated events, such as rice consumption and accidents, is coincidental or influenced by a common external factor. Therefore, assuming that a high statistical correlation proves a direct mechanical cause-and-effect relationship is a fundamental misinterpretation of data.

44. (C) Assertion (A) is true, but Reason (R) is false.

Heterogeneity in a sample can lead to a misleadingly high correlation coefficient, where the data appears to have a strong relationship that does not exist in the individual subgroups. This specific statistical error is known as spurious correlation. It is not an inverse relationship, which instead describes a situation where one variable increases while the other variable decreases in a predictable manner.

45. (C) The independent variable lacks a causal basis to predict the dependent one

Regression models are only useful for policy if the independent variable has a logical or causal relationship with the dependent variable. Predicting accidents based on pet registrations would be ineffective because pet ownership does not cause traffic incidents. Without a causal link, any predictions generated by the regression equation would lack the necessary basis for creating actionable and reliable traffic control strategies.

46. (D) Assertion (A) is false, but Reason (R) is true.

A small standard error of estimate indicates that the observed data points are clustered closely around the regression line, making predictions more accurate. However, confidence intervals are defined by different multiples of the standard error. A ninety-five percent confidence interval is calculated by adding and subtracting twice the standard error from the predicted value, rather than using only one standard error unit.

47. (B) Scatter Diagram

Visualizing the connection between two variables is most effectively achieved through a scatter diagram. This tool plots individual data pairs as points on a two-dimensional graph, where one axis represents the independent variable and the other represents the dependent variable. By observing the pattern of these points, researchers can quickly identify whether the relationship is linear, curvilinear, direct, inverse, or non-existent.

48. (C) The variable that is the basis of prediction
In statistical modeling and regression analysis, the independent variable serves as the foundational basis for making predictions. It is the variable that is assumed to influence or predict changes in another variable. In a simple linear equation, it is typically represented by the symbol x and is plotted on the horizontal axis of a graph to observe its relationship with the dependent variable.

49. (C) -1 and 1

The coefficient of correlation is a standardized statistical measure used to determine the strength and direction of a linear relationship between two variables. By mathematical design, the value of this coefficient is always constrained within the range of negative one to positive one. This range allows for the interpretation of perfect inverse, perfect direct, or zero linear relationships between the analyzed variables.

50. (B) 65 per cent

Confidence intervals represent the probability that the true value of a variable falls within a specified range. In the context of the standard error of estimate, an interval created by adding and subtracting one standard error from the predicted value corresponds to a sixty-five percent confidence level. This means there is a sixty-five percent chance that the actual value lies within that range.

51. (C) Minimizing the squared differences between observed points and the line

The technique of least squares is a mathematical approach used in regression analysis to determine the line of best fit for a set of data points. This method works by minimizing the sum of the squares of the vertical deviations between each observed point and the line. By doing so, it ensures that the resulting regression line provides the most accurate estimation.

52. (D) By dividing the covariance of X and Y by the variance of X

In a standard linear regression model, the slope of the line represents the change in the dependent variable for every one-unit change in the independent variable. It is mathematically derived by dividing the covariance of the two variables by the variance of the independent

variable. This calculation determines the steepness and direction of the regression line used for predicting future values of y .

53. (C) It measures the linear relationship between two variables

The coefficient of correlation is a fundamental statistical tool specifically designed to measure the strength and direction of the linear relationship between two variables. It does not evaluate curvilinear patterns or prove cause-and-effect. A positive value indicates that both variables move in the same direction, while a value closer to zero suggests a weak linear connection between the independent and the dependent variables.

54. (D) Least squares regression

When a researcher uses a known value of an independent variable to estimate a specific value of a dependent variable, they are performing regression analysis. Specifically, least squares regression provides the mathematical framework to calculate the line that best fits the historical data. This line then serves as a predictive tool to determine the most likely outcome for any new observation.

55. (A) -0.80

To calculate the correlation coefficient using the provided manufacturing data, the covariance is divided by the product of the standard deviations of both variables. Given the covariance is negative forty and the standard deviations are five and ten, the calculation results in negative forty divided by fifty. This yields a correlation coefficient of negative zero point eight, indicating a strong inverse relationship.

56. (B) 40

Using the linear regression equation provided, the estimated productivity score is calculated by multiplying the training hours by the slope and adding the intercept. For an employee with forty training hours, the calculation is twenty plus zero point five times forty, which equals forty. This $\hat{y}$ value represents the most likely productivity score for that specific level of training based on the model.

57. (A) All data points would lie exactly on the regression line

The standard error of estimate measures the typical distance between observed data points and the regression line. If this value is exactly zero, it mathematically implies that there is no deviation at all. In such a scenario, every single data point in the scatter diagram would lie perfectly on the calculated regression line, indicating that the model explains all the observed variability.

58. (B) Data points closely scattered around an imaginary line sloping upwards from left to right.

A correlation coefficient of positive zero point nine two indicates a very strong direct relationship between the two variables. When this data is plotted on a scatter diagram, the points will be closely clustered together and will form a clear pattern that slopes upwards from the bottom left to the top right, reflecting that both variables tend to increase together over time.

59. (C) 90

To estimate the operational cost for an ATM processing thirty hundred transactions, the regression parameters are applied to the equation. Multiplying the volume of thirty by the slope of two point five gives seventy-five. Adding this to the y -intercept of fifteen results in an estimated cost of ninety. Therefore, ninety thousand rupees is the predicted cost based on the established linear regression model.

60. (B) 82 to 98

For a ninety-five percent confidence interval, the estimate is adjusted by adding and subtracting twice the standard error. Given an estimated cost of ninety and a standard error of four, the range is calculated as ninety plus or minus eight. This results in a budget interval between eighty-two and ninety-eight thousand rupees, providing the bank with a statistically reliable range for allocation.

61. (B) One variable increases while the other variable decreases

Scatter diagrams use visual patterns to describe the relationship between two variables. An inverse relationship is characterized by one

variable increasing while the other variable decreases. This pattern is represented on a graph by a set of points that generally form a line sloping downward from the top left toward the bottom right, indicating a negative correlation between the independent and dependent variables.

62. (A) The slope of the line 'b' is restricted to being a positive numerical value.

The linear regression line is defined by the equation $y = a + bx$, where a is the y-intercept and b is the slope. While the intercept is the point where the line crosses the y-axis, the slope indicates the rate of change. Crucially, the slope is not restricted to positive values and can be negative, representing an inverse relationship between variables.

63. (D) Calculating $\hat{y} \pm 2S_e$ yields a 65 per cent confidence interval.

Standard error and confidence intervals are closely linked in statistical prediction. A ninety-five percent confidence interval is wider than a sixty-five percent interval because it uses two standard error units instead of one. The standard error formula uses n minus two in the denominator to account for estimated parameters. Therefore, stating that two standard errors yield a sixty-five percent interval is incorrect.

64. (B) The variance of the independent variable x . The alternative formula for the standard error of estimate involves the sum of squared observed y values, the y-intercept, the slope, and the sum of the product of x and y . It also requires the number of observations minus two. However, the variance of the independent variable x is not a separate component that is directly visible within this specific alternative calculation formula.

65. (A) Multiple correlation involving three or more variables

A scatter diagram is a versatile tool for visualizing various types of relationships between two variables, including direct, inverse, and curvilinear patterns. However, it is limited to representing data in two dimensions. Consequently, it cannot be used to visualize multiple correlation, which involves

the simultaneous relationship between three or more variables, as this would require more axes than a standard graph provides.

- (A) Spurious correlation where variables rise without a causal link

Spurious correlation occurs when two variables show a strong statistical relationship but have no logical or causal connection. The example of rice consumption and road accidents increasing together over time is a classic case where both variables are likely influenced by a third factor, such as population growth. In such instances, the high correlation coefficient does not imply that one variable causes the other.

67. (C) Statement I is correct, but Statement II is incorrect.

Scatter diagrams showing exercise and weight gain typically display an inverse relationship, where more exercise correlates with less weight gain. In the terminology of regression analysis, the variable that researchers are attempting to predict is always called the dependent variable. Therefore, it is incorrect to refer to the predicted variable as the independent variable, as the independent variable is actually the predictor.

68. (A) Both Statement I and Statement II are correct.

In a linear regression model, the y-intercept represents the specific value where the line intersects the vertical axis when the independent variable is zero. The slope coefficient determines the slant of the line, where a positive sign indicates an upward slope and a negative sign indicates a downward slope. Both parameters are essential for defining the position and direction of the regression line.

69. (A) I and II only

The coefficient of correlation is designed to measure only the linear relationship between variables and is sensitive to the homogeneity of the data. Heterogeneous samples can lead to spurious results that do not reflect true associations. While a value near one indicates a strong linear link, it is a common statistical fallacy to assume that this strength proves a definitive cause-and-effect relationship.

70. (D) I, II, and III

The standard error of estimate is a crucial tool in regression analysis that measures the variation of observed values around the regression line. It is calculated by dividing the sum of squared differences by n minus two and taking the square root. This measure is essential for researchers as it helps in establishing confidence intervals to determine the reliability of future predicted values.

71. (A) I and II only

Spurious correlation describes a statistical relationship between two variables that appear to be related but have no logical causal link. This phenomenon can occur when using a heterogeneous sample or when both variables are influenced by an external factor. While it involves a high correlation coefficient, it does not imply an actual connection, and it certainly does not result in zero correlation.

72. (B) I, II, and IV only

The linear regression equation uses y to represent the dependent variable and x for the independent variable. The slope of the line, represented by b , dictates whether the line slants upward or downward. However, the parameter a represents the y -intercept, which is the point where the line crosses the y -axis, rather than representing the slope as suggested in the incorrect statement.

73. (A) Multiple Correlation or Regression

Simple linear regression analysis focuses on the relationship between two variables. However, when a study involves analyzing the interactions and effects of more than two variables simultaneously, it is referred to as multiple correlation or multiple regression. This advanced statistical technique allows researchers to estimate the value of a dependent variable based on several different independent variables at the same time.

74. (D) How good the prediction based on the line of best fit is

The standard error of the estimate is a metric used to evaluate the accuracy of the predictions generated by a regression model. It quantifies the average distance that the observed data points fall from the regression line of best fit.

A smaller standard error suggests that the model's predictions are highly reliable, while a larger error indicates that the predictions are less precise.

75. (B) No linear relationship exists, but a non-linear one might

A correlation coefficient of zero means that there is no linear relationship between the two variables under study. This indicates that a straight line cannot effectively describe how the variables move together. However, it is important to note that a zero coefficient does not rule out the possibility of a non-linear or curvilinear relationship, which the correlation coefficient is unable to measure.

76. (A) The y -intercept

In the standard regression equation used for prediction, the parameter represented by the letter a is known as the y -intercept. This value indicates the estimated level of the dependent variable when the independent variable is exactly zero. It serves as the starting point for the regression line on a graph and is a fundamental component for calculating predicted values of y .

77. (A) A high correlation between variables without a causal link

Spurious correlation is a statistical occurrence where two variables appear to have a strong relationship, often indicated by a high correlation coefficient, despite lacking any logical causal connection. This often happens because both variables are influenced by a common hidden factor. It is distinct from relationships that are purely linear, curvilinear, or represented by specific mathematical values of the slope and intercept.

78. (B) The correlation coefficient only measures linear relationships

The correlation coefficient is a specific measure that only detects linear patterns in data. If data points are arranged in a perfect circle, they possess a strong geometric relationship, but no single straight line can represent them. Because the points are perfectly symmetrical around the center, the linear covariance is zero, leading the correlation coefficient to also be zero despite the obvious pattern.

- 79.** (D) It is used to estimate one variable when a value of the other is given.

Regression analysis is a powerful statistical tool used to model the relationship between variables. Its primary function is to allow researchers to estimate or predict the value of a dependent variable when the value of an independent variable is known. Unlike correlation, which only measures the strength of an association, regression provides a specific equation for making functional predictions based on historical data.

- 80.** (C) An inverse relationship

A scatter diagram provides a visual representation of the relationship between two variables. When the points on the graph form a discernible pattern that slants downward from the upper left toward the lower right, it indicates an inverse relationship. This means that as the independent variable increases, the dependent variable tends to decrease, demonstrating a negative correlation between the two factors.

CHAPTER 05

Time Series

Oct/Nov 2021

1. In an ARMA model, what specific component of the time series does the “MA” (Moving-Average) portion address?
 - (A) Regressing the variable strictly on its own lagged historical values over time.
 - (B) Modeling error terms as a linear combination of past and present errors.
 - (C) Computing the sum of actual observations divided by the total moving intervals.
 - (D) Isolating the secular trend component from the cyclical residual calculations.

May/June 2017

2. Identify the incorrectly matched pair regarding forecasting models.
 - (A) AR model — Variable regress against its own past values
 - (B) MA model — Models error terms at various times in the past
 - (C) ARMA model — Exclusively separates the trend component without utilizing lags
 - (D) Time series forecasting — Analyzes past trends assuming future trends remain similar

Oct/Nov 2013

3. What is the precise definition of a secular trend in the context of time series analysis?
 - (A) A smooth, general, long-term, average tendency to either increase, decrease, or remain constant.
 - (B) A short-term fluctuation occurring within a period of one year or less.
 - (C) An unpredictable change in variable values occurring randomly.
 - (D) A regular pattern of variation that perfectly correlates with business cycles over a decade.

May/June 2024

4. Read the following statements regarding time coding:
 - I. When a time series has an odd number of data points, the corresponding coded

values directly yield whole numbers.

- II. When a time series has an even number of data points, the initial coded fractional values are multiplied by 2.

Which of the above statement(s) is/are correct?

- (A) Only I
- (B) Only II
- (C) Both I and II
- (D) Neither I nor II

Oct/Nov 2006

5. What does the term “deseasonalisation” refer to?
 - (A) Eliminating the long-term secular trend from a data set to expose random errors.
 - (B) Adjusting cyclical data to account for unpredictable natural disasters.
 - (C) Centering a four-quarter moving average to identify the underlying business cycle.
 - (D) Eliminating seasonal patterns from the time series to help calculate cyclical variation.

May/June 2013

6. Read the following statements regarding deseasonalisation:

- I. Eliminating seasonal variation from a time series is termed deseasonalisation.
- II. A time series is deseasonalised by subtracting the seasonal index from the actual values.

Which of the above statement(s) is/are correct?

- (A) Only I
- (B) Only II
- (C) Both I and II
- (D) Neither I nor II

Oct/Nov 2020

7. What is the general equation used for estimating a straight line trend?
 - (A) $Y = a + bx + cx^2$
 - (B) $\hat{y} = a + bx$

NODIA

$$(C) b = \sum xy / \sum x$$

$$(D) \sum y = an + c \sum x^2$$

May/June 2008

8. Read the following statements about cyclical fluctuations:
- A business cycle is the most common example of a cyclical fluctuation.
 - The cyclical moves follow a strict, regular pattern with identical amplitude in every cycle.
 - The time duration required for one complete cycle is referred to as a period.
- Which of the above statement(s) is/are correct?
- I and II only
 - I and III only
 - II and III only
 - I, II, and III

Oct/Nov 2014

9. What is the fundamental requirement when utilizing the moving average method for a time series containing an even number of data points per period (like 4 quarters)?
- Centering the moving averages
 - Randomizing the moving totals
 - Discarding the median values
 - Adjusting the time code to zero

May/June 2021

10. Read the following statements regarding second degree trends:
- They are described by a parabolic curve.
 - The general form of the equation is $Y = a + bx + cx^2$.
 - Finding the numerical constants requires solving three simultaneous equations.
- Which of the above statement(s) is/are correct?
- I and II only
 - II and III only
 - I and III only
 - I, II, and III

Oct/Nov 2011

11. Conceptually, why do cyclical fluctuations differ fundamentally from seasonal variations?
- Cyclical fluctuations exceed a year and are irregular, while seasonal cycles occur within a single year.
 - Cyclical fluctuations are perfectly

predictable in nature, while seasonal variations are driven by random environment events.

- Cyclical fluctuations follow an exclusively downward trend, whereas seasonal variations show an exclusively upward drift.
- Cyclical fluctuations are isolated via moving averages, whereas seasonal variations are identified through the residual method.

May/June 2005

12. Read the following statements concerning the time coding of variables:
- Coding simplifies computations by making the mean time zero.
 - For odd numbered datasets, the middle year is assigned a code of zero.
 - For even numbered datasets, the middle years are fractionally coded before being multiplied by 2.
 - After coding, the intercept a in the linear equation equals $\bar{x}$.
- Which of the above statement(s) is/are correct?
- I, II, and III only
 - I, II, and IV only
 - II, III, and IV only
 - I, III, and IV only

Oct/Nov 2016

13. In the context of time series forecasting, what does the “autoregression” term indicate in an Autoregressive Model (AR model)?
- A regression of the error term against the contemporaneous time period.
 - A regression of the variable of interest against its own lagged (past) values.
 - A linear combination of completely independent external variables.
 - A moving average process that smoothen structural breaks.

May/June 2022

14. Read the following statements regarding the handling of modified means in seasonal indices:
- Discarding extreme values eliminates irregular components of variation.
 - The modified mean is an index of the seasonality component.
 - The sum of the four quarterly modified

means will always perfectly equal 400.

IV. An adjusting factor is derived by dividing 400 by the sum of the modified means.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) I, III, and IV only
- (C) II, III, and IV only
- (D) I, II, and IV only

Oct/Nov 2007

15. Which of the following statements about forecasting techniques is correct?
- (A) The ARMA model completely ignores the impact of previous lags and residuals during calculation.
 - (B) Autoregressive models utilize a curvilinear matrix of future estimates to derive the dependent variable.
 - (C) Time series forecasting assumes that future trends will heavily diverge from historical trends over time.
 - (D) The MA model involves modeling the error term as a linear combination of past and present error terms.

May/June 2025

16. Read the following statements about trends and forecasting:
- I. Secular trends describe a smooth, short-term average tendency.
 - II. A linear trend can be visually described by a straight line.
 - III. Curvilinear relationships account for product life cycles characterized by growth, stability, and decrease.
 - IV. Time series data provides statistical information accumulated at irregular intervals.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) III and IV only
 - (D) I and IV only

Oct/Nov 2012

17. Which statement accurately describes the process of calculating the seasonal index adjusting factor?
- (A) The adjusting factor is obtained by multiplying the sum of the modified means

by 400.

- (B) The adjusting factor is calculated as 400 divided by the sum of the modified means.
- (C) The adjusting factor corrects the moving averages before the moving totals are computed.
- (D) The adjusting factor is derived by dividing the total number of periods by the secular trend base.

May/June 2019

18. Read the following statements about cyclical and seasonal variations:
- I. The Relative cycle residual formula is $[(y - \hat{y}) / \hat{y}] \times 100$.
 - II. Cyclical variation as a percentage of trend is calculated as $(y / \hat{y}) \times 100$.
 - III. Seasonal variations are repetitive and predictable.
 - IV. The Ratio to Moving Average Method is used to measure cyclical variation.
 - V. The residual method divides observed data by predicted data to isolate cyclical variation.
- Which of the above statement(s) is/are correct?
- (A) I, II, III, and IV only
 - (B) I, II, III, and V only
 - (C) II, III, IV, and V only
 - (D) I, III, IV, and V only

Oct/Nov 2025

19. Which of the following statements about irregular variation is incorrect?
- (A) It can always be mathematically isolated to identify all underlying causes.
 - (B) Its value is unpredictable and changes randomly.
 - (C) It occurs over very short intervals and follows random patterns.
 - (D) Over time, the random variations associated with it tend to correct themselves.

May/June 2015

20. Read the following statements regarding the steps for calculating seasonal variation:
- I. Calculate moving totals using a sliding method.
 - II. Calculate the centered moving average.
 - III. Compute the percentage of actual value to the moving average.
 - IV. Discard the highest and lowest values to

find the modified mean.

V. Deseasonalise data by subtracting the seasonal index from the actual value.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV only
- (B) II, III, IV, and V only
- (C) I, III, IV, and V only
- (D) I, II, III, IV, and V

Oct/Nov 2010

21. Which of the following statements about cyclical fluctuation is incorrect?
- (A) It tends to oscillate above and below the secular trend line.
 - (B) The time between hitting peaks and lows is called a period.
 - (C) Fluctuations in business activity can occur many times over varying periods within a series.
 - (D) The cyclical moves perfectly follow a regular and predictable amplitude from cycle to cycle.

May/June 2021

22. The following question consists of two statements—Assertion (A) and Reason (R). Answer this question selecting the appropriate option.
- Assertion (A): When calculating a four-quarter moving average, centering the data becomes necessary.
- Reason (R): Four is an even number, meaning the calculated average falls halfway between two quarters rather than squarely on a single quarter.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2005

23. To find the numerical constants for a second degree parabolic trend ($Y = a + bx + cx^2$), one must solve three equations simultaneously.

These equations contain all of the following terms EXCEPT:

- (A) $\sum y = an + c \sum x^2$
- (B) $a = \bar{y} - b\bar{x}$
- (C) $\sum x^2 y = a \sum x^2 + c \sum x^4$
- (D) $b = \sum xy / \sum x^2$

May/June 2014

24. The following question consists of two statements—Assertion (A) and Reason (R). Answer this question selecting the appropriate option.
- Assertion (A): Cyclical fluctuations in a business cycle perfectly follow regular and predictable time patterns from cycle to cycle.
- Reason (R): Over time, there are years when the business cycle hits a peak above the trend line and times when business activity slumps below it.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2022

25. Examples of phenomena driving seasonal variation include all of the following EXCEPT:
- (A) An agricultural slump caused by a sudden, unexpected flood.
 - (B) A medical doctor seeing a significant increase in flu cases during the winter.
 - (C) A lake resort experiencing a sharp increase in boat rentals during the summer.
 - (D) Hill resorts expecting a higher volume of tourists during the summer season.

May/June 2006

26. The following question consists of two statements—Assertion (A) and Reason (R). Answer this question selecting the appropriate option.
- Assertion (A): Irregular variations can be easily and precisely isolated mathematically using long-term moving averages.
- Reason (R): Irregular variations follow random, unpredictable patterns caused by

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sudden events like earthquakes and floods.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
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 (C) Assertion (A) is true, but Reason (R) is false.
 (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2017

27. Which of the following is the most appropriate practical example of a steady increasing secular trend?
 (A) The steady increase in the cost of living as recorded by the Consumer Price Index.
 (B) The daily fluctuation of a highly volatile technology stock in a competitive market.
 (C) The unpredictable spike in raw material prices following the outbreak of a sudden war.
 (D) The quarterly increase in winter coat sales at a local department store during peak season.

May/June 2020

28. Consider a 5-year dataset (2018 to 2022) with a mean time coded to zero. If the analyst computes the square of coded times ($\sum x^2 = 10$) and the product of coded time and actual values ($\sum xy = 125$), what is the value of the slope b for the trend line?
 (A) 1.25
 (B) 10.0
 (C) 12.5
 (D) 125.0

Oct/Nov 2015

29. Which is the most appropriate method to deseasonalise a time series value once the seasonal index is established?
 (A) Subtracting the seasonal index from the actual observed value for the given period.
 (B) Dividing the actual value by the seasonal index (as a fraction of 100).
 (C) Multiplying the actual value by the seasonal index and then dividing the result by 100.
 (D) Adding the seasonal index to the moving average of the specific period under

analysis.

May/June 2009

30. A marketing team is tracking the sales of a newly launched appliance over an odd number of years. They decide to fit a parabolic curve ($Y = a + bx + cx^2$). After coding the time series so that $\sum x = 0$, what is the modified normal equation used to calculate $\sum y$?

- (A) $\sum y = bn + a \sum x^2$
 (B) $\sum y = \sum x^2 y$
 (C) $\sum y = an + c \sum x^2$
 (D) $\sum y = a + b + c$

Oct/Nov 2011

31. Which is the most appropriate description of a business product's life cycle when charted over time?
 (A) A straight linear trend with a constant negative slope.
 (B) An irregular variation characterized by total randomness.
 (C) A pure seasonal variation that repeats exactly every 12 months.
 (D) A curvilinear relationship where sales increase, stabilize, and then decrease.

May/June 2016

32. If a marketing team establishes the constants $a = 40$, $b = 15$, and $c = 3$ for a parabolic equation based on coded time, what is the estimated sales value for a future year whose coded time (x) is 4?
 (A) 112
 (B) 148
 (C) 152
 (D) 172

Oct/Nov 2023

33. Arrange the following steps in chronological order to estimate a straight line trend equation ($\hat{y} = a + bx$) using the time coding process:
 I. Determine the y-intercept (a) using the formula $a = \bar{y}$.
 II. Find the mean time of the dataset.
 III. Compute the slope (b) using the formula $b = \sum xy / \sum x^2$
 IV. Subtract the mean time from each sample time to find the coded time (x).
 (A) II, IV, I, III
 (B) II, IV, III, I
 (C) IV, II, III, I

(D) IV, I, II, III

May/June 2012

34. Using crop output data for 2020 (Actual = 114,000 tons, Estimated = 120,000 tons), what is the value of the relative cyclical residual?
- (A) -6.0%
 (B) -5.0%
 (C) +5.0%
 (D) +6.0%

Oct/Nov 2019

35. Match the mathematical formulas in List I with their corresponding purpose in List II.
- List I: (Mathematical Formulas)
- P. $\hat{y} = a + bx$
 Q. $Y = a + bx + cx^2$
 R. $(y/\hat{y}) \times 100$
 S. $[(y - \hat{y})/\hat{y}] \times 100$
- List II: (Purpose)
1. Relative cycle residual
 2. Cyclical variation as a percentage of trend
 3. Linear trend equation
 4. General equation for a parabolic curve
- (A) P-3, Q-4, R-2, S-1
 (B) P-3, Q-4, R-1, S-2
 (C) P-4, Q-3, R-2, S-1
 (D) P-2, Q-1, R-4, S-3

May/June 2007

36. A manager is calculating the seasonal index for quarterly bookings. After discarding the highest and lowest values for each quarter and averaging the remainder, the modified means are: Q1 = 92.5, Q2 = 108.0, Q3 = 115.0, Q4 = 88.5. The sum of these modified means is 404.0. What is the adjusting constant used to finalize the seasonal index?
- (A) 0.9800
 (B) 0.9901
 (C) 1.0000
 (D) 1.0101

Oct/Nov 2024

37. Match the variables associated with the linear trend equation ($\hat{y} = a + bx$) in List I with their descriptions in List II.
- List I: (Variables)
- P. $\hat{y}$
 Q. x
 R. a
 S. b

List II: (Descriptions)

1. Independent variable (time)
 2. Slope of the trend line
 3. Estimated value of the dependent variable
 4. y-intercept (value when $x = 0$)
- (A) P-1, Q-3, R-2, S-4
 (B) P-3, Q-1, R-2, S-4
 (C) P-4, Q-2, R-1, S-3
 (D) P-3, Q-1, R-4, S-2

May/June 2010

38. If next year's actual Q1 room bookings are projected to be 2,748 rooms and the adjusted seasonal index for Q1 is 91.6, what is the deseasonalised value for the first quarter?
- (A) 2,517
 (B) 2,839
 (C) 3,000
 (D) 3,120

Oct/Nov 2008

39. Identify the correctly matched pair regarding time series concepts.
- (A) Seasonal Variation — Unpredictable and changes randomly
 (B) Irregular Variation — Corrects itself over time following random patterns
 (C) Moving Average Method — Discards lowest and highest values to find the linear slope
 (D) Autoregressive Model — Models error terms contemporaneously

May/June 2018

40. If a central bank predicts inflation by combining the effects of past inflation values and modeling error terms occurring contemporaneously and in the past, what model are they implementing?
- (A) ARMA model
 (B) Deseasonalisation Ratio model
 (C) Second Degree Trend model
 (D) Unadjusted Moving Average model

Oct/Nov 2009

41. Identify the incorrectly matched pair regarding time series variations.
- (A) Irregular Variation — Repetitive and highly predictable over long intervals
 (B) Secular Trend — Smooth, long-term average tendency
 (C) Cyclical Fluctuation — Hit peaks and

- slumps above and below trend line
 (D) Seasonal Variation — Movement around the trend line in one year or less

May/June 2023

42. Which of the following best defines a time series?
 (A) A set of independent variables used exclusively for cross-sectional market analysis.
 (B) A set of observations collected at successive points in time or over successive periods.
 (C) A compilation of unsequenced historical data used to predict geographical distribution.
 (D) A continuous probability distribution used to estimate random business errors.

Oct/Nov 2021

43. Read the following statements regarding trends:
 I. Secular trends give the long-term direction of the time series.
 II. Business cycle trends are mostly downward, reflecting continuous economic contraction.
 Which of the above statement(s) is/are correct?
 (A) Only I
 (B) Only II
 (C) Both I and II
 (D) Neither I nor II

May/June 2017

44. How is seasonal variation formally defined in a time series?
 (A) A pattern of change that oscillates above and below the trend line for periods longer than a year.
 (B) An unpredictable fluctuation caused by environmental anomalies like earthquakes.
 (C) A repetitive and predictable movement around the trend line in one year or less.
 (D) A continuous upward drift in business metrics over a span of several decades.

Oct/Nov 2013

45. Read the following statements regarding cyclical variation measurement:
 I. The Relative cycle residual measures the percentage of deviation from the trend for each value.

- II. The residual method isolates seasonal components by dividing actual data by the seasonal index.

Which of the above statement(s) is/are correct?

- (A) Only I
 (B) Only II
 (C) Both I and II
 (D) Neither I nor II

May/June 2024

46. Which of the following represents the four types of variations present in a time series?
 (A) Secular Trend, Business Cycle, Seasonal Variation, Autoregressive Variation
 (B) Long-term Trend, Curvilinear Trend, Short-term Fluctuation, Moving Average
 (C) Secular Trend, Cyclical Fluctuation, Seasonal Variation, Irregular Variation
 (D) Linear Trend, Parabolic Trend, Cyclical Trend, Random Trend

Oct/Nov 2006

47. Read the following statements regarding the reasons for studying secular trends:
 I. It helps to evaluate the success of previous policies by describing historical patterns.
 II. It helps project the future growth rate of population and GDP.
 III. It perfectly isolates unpredictable irregular variations like earthquakes.
 Which of the above statement(s) is/are correct?
 (A) I and II only
 (B) II and III only
 (C) I and III only
 (D) I, II, and III

May/June 2013

48. When using the Ratio to Moving Average method, what mean value is the seasonal index based upon?
 (A) 0
 (B) 10
 (C) 100
 (D) 400

Oct/Nov 2020

49. Read the following statements regarding the Ratio to Moving Average Method:
 I. Centering the moving averages is not essential if the data represents an odd

number, like 7-day data for a week.

- II. Centering is necessary when there are 4 quarters in a year.
- III. The moving average smooths down the peaks and troughs of the original time series.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

May/June 2008

50. What is the primary conceptual reason for using coding when analyzing time series data?
- (A) To encrypt sensitive historical business data.
 - (B) To convert curvilinear trends into linear trends automatically.
 - (C) To simplify computation by making the mean time zero.
 - (D) To eliminate irregular variations from the dataset.

Oct/Nov 2014

51. Read the following statements about forecasting techniques:
- I. AR model implies a regression of the variable against itself.
 - II. MA model involves modelling the error term as a linear combination of past and present error terms.
 - III. ARMA combines both autoregression and moving average polynomials.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) I and III only
 - (C) II and III only
 - (D) I, II, and III

May/June 2011

52. What is the conceptual rationale behind discarding each quarter's highest and lowest values when calculating the modified mean for seasonal indices?
- (A) To mathematically guarantee that the four quarterly indices total exactly 400.
 - (B) To transform an even number of time intervals into an odd number.
 - (C) To adjust the secular trend so that it

intercepts the y-axis at zero.

- (D) To eliminate the extreme cyclical and irregular components of variation.

Oct/Nov 2018

53. Read the following statements regarding seasonal variation calculation:
- I. The degree of seasonality is measured by variations away from a base of 100.
 - II. The sliding technique drops the first value and adds the fifth value to keep the moving total updated.
 - III. The moving average is calculated by dividing the moving total by the number of periods.
 - IV. The percentage of actual to moving average is calculated as $100 \times (\text{average}/\text{actual})$.
- Which of the above statement(s) is/are correct?
- (A) I, II, and IV only
 - (B) I, II, and III only
 - (C) II, III, and IV only
 - (D) I, III, and IV only

May/June 2005

54. Identify the correct statement regarding time series variations.
- (A) Irregular variations occur over long, predictable intervals.
 - (B) Business cycle trends are generally characterized as mostly downward movements over time.
 - (C) A curvilinear relationship is suitably demonstrated by the life cycle of a business product.
 - (D) The cyclical variation relative cycle residual is expressed as a specific fraction of 1000.

Oct/Nov 2016

55. Read the following statements related to irregular variations:
- I. They occur over very short intervals.
 - II. They follow perfectly cyclical patterns over decades.
 - III. They may be caused by unusual events like a cold winter or a war.
 - IV. Over time, these random variations tend to correct themselves.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III only

- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, and IV only

May/June 2022

56. Identify the correct statement concerning the calculation of cyclical variation using the residual method.
- (A) Relative cycle residual is calculated using the formula $[(y - \hat{y}) / \hat{y}] \times 100$.
 - (B) Cyclical variation as a percentage of trend is calculated as $(\hat{y} / y) \times 100$.
 - (C) The residual method is used exclusively to forecast future cyclical variation, not to analyze past variation.
 - (D) The predicted value y is divided by the actual value $\hat{y}$ to isolate the irregular component.

Oct/Nov 2007

57. Read the following statements regarding definitions of variables in time series equations:
- I. $\hat{y}$ is the estimated value of the dependent variable.
 - II. x is the independent variable representing coded time.
 - III. a is the slope of the trend line.
 - IV. b is the y -intercept.
 - V. c is a numerical constant used in parabolic curves.
- Which of the above statement(s) is/are correct?
- (A) I, II, and V only
 - (B) II, III, and IV only
 - (C) I, III, and V only
 - (D) I, II, IV, and V only

May/June 2025

58. Identify the incorrect statement regarding the application of trend analysis.
- (A) It helps project past trends into the future.
 - (B) It eliminates cyclical components to derive the seasonal index.
 - (C) It evaluates the success of previous policies.
 - (D) It separates the trend component from the series to clarify seasonal fluctuations.

Oct/Nov 2012

59. Read the following statements regarding characteristics of forecasting models:
- I. AR model implies a regression of the variable against itself.

- II. MA model involves modelling the error term as a linear combination of past and present error terms.
- III. ARMA combines both autoregression and moving average polynomials.
- IV. Time series forecasting assumes past trends will hold similar to future trends.
- V. ARMA models exclude the impact of residuals from their forecasts.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and V only
- (B) I, II, IV, and V only
- (C) I, II, III, and IV only
- (D) II, III, IV, and V only

May/June 2019

60. Identify the incorrect statement regarding the coding process for time variables.
- (A) When a time series has an odd number of data points, you get whole numbers and the mean is 0.
 - (B) In the case of an even number of data, the initial fraction codes are multiplied by 2 to avoid complication.
 - (C) For an even number of data points, the mean time falls exactly on one of the given years.
 - (D) Time coding simplifies computations when applying equations to find squares.

Oct/Nov 2025

61. Read the following statements regarding the features of a curvilinear (parabolic) trend in time series:
- I. It is suitable when trends do not follow a straight line.
 - II. It requires the equation $Y = a + bx + cx^2$.
 - III. Solving it requires the use of simultaneous equations.
 - IV. It is completely unsuitable for analyzing a business product's life cycle.
 - V. Coding the time variable simplifies the simultaneous equations.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and V only
- (B) I, II, III, and IV only
- (C) II, III, IV, and V only
- (D) I, III, IV, and V only

May/June 2015

62. Time series analysis utilizes the independent variable of time measured in various units. These units commonly include all of the following EXCEPT:
- (A) Years
 - (B) Months
 - (C) Decibels
 - (D) Weeks

Oct/Nov 2010

63. The following question consists of two statements—Assertion (A) and Reason (R). Answer this question selecting the appropriate option.
- Assertion (A): Coding the time variable is a common practice when fitting linear trend equations to a time series.
- Reason (R): Coding sets the mean of the time variable to zero, which simplifies the computational process by eliminating one part of the standard normal equations.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

May/June 2021

64. The Ratio to Moving Average Method for finding seasonal variation includes all of the following procedural steps EXCEPT:
- (A) Adding total values of all four quarters of the first year.
 - (B) Finding the four-quarter moving average by dividing derived values by 4.
 - (C) Calculating the percentage of actual value to moving average values for each period.
 - (D) Dropping the highest and lowest actual data points before calculating moving totals.

Oct/Nov 2005

65. The following question consists of two statements—Assertion (A) and Reason (R). Answer this question selecting the appropriate option.

Assertion (A): To isolate the pure seasonal index, an adjusting constant is multiplied by the modified mean values.

Reason (R): The adjusting constant is mathematically derived to ensure the four quarterly modified mean indices total exactly 400.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2014

66. An ARMA model utilizes polynomials to forecast future values. These polynomials consider all of the following elements EXCEPT:
- (A) Autoregression
 - (B) Moving average
 - (C) Completely unrelated cross-sectional variables
 - (D) The impact of previous lags

Oct/Nov 2022

67. A financial analyst is projecting inventory levels using a 5-year time series dataset spanning from 2018 to 2022 (inclusive). To simplify computation using a linear trend line ($\hat{y} = a + bx$), the analyst applies time coding. What is the coded time (x) for the year 2020?
- (A) -2
 - (B) 0
 - (C) 1
 - (D) 2

May/June 2006

68. What is the most appropriate action to take when coding a time series containing an even number of data intervals, to avoid fractions?
- (A) Subtract the lowest year from all other years.
 - (B) Divide all coded values by the total number of periods.
 - (C) Discard the earliest year to create an odd number of intervals.
 - (D) Multiply the coded fraction values by 2.

Oct/Nov 2017

69. Using a linear trend model derived from a 2018-2022 dataset, where the mean year was 2020 (coded as 0), an analyst wants to forecast inventory for the year 2026. What coded time (x) must be inserted into the equation to predict the value for 2026?
- (A) 4
(B) 5
(C) 6
(D) 7

May/June 2020

70. In the context of cyclical variation, what is the most appropriate interpretation if a period's actual observed data is lower than the trend estimate?
- (A) The cyclical variation as a percentage of the trend will be exactly 100%.
(B) The secular trend line must be mathematically recalculated.
(C) The relative cyclical residual will be a negative percentage.
(D) The business cycle has reached its maximum amplitude peak.

Oct/Nov 2015

71. In a parabolic curve scenario where the time series is coded so that $\sum x = 0$, how is the value of the numerical constant b determined mathematically?
- (A) $b = \sum x^2 y / \sum x^2$
(B) $b = \sum xy / \sum x^2$
(C) $b = (\sum xy - n\bar{x}\bar{y}) / \sum x^2$
(D) $b = a \sum x^2 + c \sum x^4$

May/June 2009

72. Arrange the following steps in chronological order to compute a seasonal index using the Ratio to Moving Average Method:
- Calculate the percentage of actual value to moving average values.
 - Add total values of all four quarters to get a moving total, using the "sliding" technique.
 - Find the modified mean of the seasonal indices by discarding highest and lowest values.
 - Find the four-quarter moving average and centre it if necessary.
- (A) II, IV, I, III
(B) IV, II, III, I

- (C) II, I, IV, III
(D) I, II, IV, III

Oct/Nov 2011

73. A lending department is monitoring crop output. In 2020, the estimated trend value for output was 120,000 tons, but the actual observed output was 114,000 tons. Using the residual method, what is the cyclical variation as a percentage of the trend for 2020?
- (A) 90%
(B) 95%
(C) 105%
(D) 114%

May/June 2016

74. Match the Time Series Variations in List I with their corresponding examples or characteristics in List II.
- List I: (Time Series Variations)
P. Secular Trend
Q. Cyclical Fluctuation
R. Seasonal Variation
S. Irregular Variation
- List II: (Examples/Characteristics)
1. Unpredictable effects from a flood or war
2. Business cycle slumps and peaks over years
3. Flu cases increasing regularly every winter
4. General tendency to increase, like Consumer Price Index
- (A) P-2, Q-4, R-1, S-3
(B) P-4, Q-2, R-3, S-1
(C) P-4, Q-3, R-2, S-1
(D) P-1, Q-2, R-4, S-3

Oct/Nov 2023

75. If a department observes a year where the relative cycle residual evaluates exactly to 0%, what does this mathematically imply regarding that year's output?
- (A) The actual observed data perfectly matched the estimated trend data.
(B) The irregular variation completely canceled out the seasonal variation.
(C) The cyclical variation as a percentage of trend was exactly 0%.
(D) The secular trend line must be horizontal with a slope of zero.

May/June 2012

76. Match the forecasting model terms in List I with their definitions in List II.

List I: (Forecasting Model Terms)

- P. AR model
Q. MA model
R. ARMA model
S. Secular Trend

List II: (Definitions)

1. A combination of autoregression and moving average polynomials
2. Long-term direction of the time series
3. Models the error term as a combination of contemporaneous and past error terms
4. Forecasts the variable using a regression of the variable against itself

- (A) P-4, Q-1, R-3, S-2
(B) P-3, Q-4, R-1, S-2
(C) P-4, Q-3, R-1, S-2
(D) P-1, Q-2, R-4, S-3

Oct/Nov 2019

77. Using an adjusting constant of 0.9901 (derived as $400 / 404$), what is the final, adjusted seasonal index for Q1, rounded to one decimal place?
- (A) 90.5
(B) 91.6
(C) 92.5
(D) 93.4

May/June 2007

78. Match the step numbers of the Seasonal Index calculation in List I with the corresponding actions in List II.

List I: (Step Numbers)

- P. Step 1
Q. Step 2
R. Step 4
S. Step 6

List II: (Actions)

1. Adjust the modified mean to a base of 100 using a constant
2. Calculate the percentage of actual value to moving average
3. Obtain the four-quarter moving average by dividing by 4
4. Add total values to get the moving total (sliding)

- (A) P-4, Q-3, R-1, S-2
(B) P-4, Q-2, R-3, S-1
(C) P-4, Q-3, R-2, S-1

- (D) P-2, Q-1, R-4, S-3

Oct/Nov 2024

79. A central bank relies on time series modeling to forecast inflation rates. If economists utilize a linear combination of the inflation rate's own past values to predict the future rate, which specific model are they applying?
- (A) MA model (Moving-Average)
(B) Curvilinear Parabolic model
(C) Residual cyclical model
(D) AR model (Autoregressive)

May/June 2010

80. Identify the correctly matched pair regarding equations used in time series.
- (A) Adjusting factor for seasonal index — $400 \times \text{Sum of modified mean}$
(B) Relative cycle residual — $(\hat{y}/y) \times 100$
(C) Second degree trend constant b — $\frac{\sum x^2 y / \sum x^4}{\sum xy / \sum x^2}$
(D) Straight line slope b (coded data) — $\frac{\sum xy / \sum x^2}{\sum x^2 y / \sum x^4}$

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ANSWERS

1. (B) Modeling error terms as a linear combination of past and present errors.
The moving-average component in an ARMA model specifically addresses the relationship between a variable and its previous error terms. It models the current value of a time series as a linear combination of its past and present residual errors. This helps in capturing short-term shocks and fluctuations that influence the overall behavior of the series over time.
2. (C) ARMA model — Exclusively separates the trend component without utilizing lags
An ARMA model combines autoregressive and moving average components to forecast values based on their own past observations and errors. It does not exclusively separate the trend component without utilizing lags. Instead, it relies heavily on historical lags and residuals to model the series. Separating trend components usually involves different decomposition techniques rather than pure ARMA modeling.
3. (A) A smooth, general, long-term, average tendency to either increase, decrease, or remain constant.
A secular trend represents the smooth, general, long-term, average tendency of a time series to increase, decrease, or remain relatively constant over a long period. It captures the underlying direction of the data, filtering out short-term fluctuations. This component is essential for understanding the fundamental growth or decline patterns in variables like population, technology, or national income.
4. (C) Both I and II
Time coding simplifies statistical computations by setting the mean of the time variable to zero. When a dataset has an odd number of points, the middle value becomes zero, resulting in whole numbers. For even datasets, the middle values are initially fractions. Multiplying these fractions by two converts them into integers, ensuring that the sum of all coded values remains zero.
5. (D) Eliminating seasonal patterns from the time series to help calculate cyclical variation.
Deseasonalisation is a statistical process used to remove seasonal patterns from a time series dataset. By eliminating these regular, repeating fluctuations, analysts can more clearly identify the underlying trend and cyclical variations. This is typically achieved by dividing the actual observations by the seasonal index, allowing for a more accurate comparison of data across different periods and seasons.
6. (A) Only I
Deseasonalisation is the formal term for removing seasonal variations from time series data to reveal the underlying trend. While the first statement correctly defines the term, the second is inaccurate because deseasonalisation is performed by dividing the actual values by the seasonal index, not by subtraction. This division adjusts the data to reflect a neutralized, non-seasonal state for analysis.
7. (B) $\hat{y} = a + bx$
The standard mathematical representation of a straight line trend in time series analysis is the linear equation where the predicted value is a function of time. In this formula, the intercept represents the estimated value when the independent variable is zero. The slope indicates the constant rate of change per unit of time, describing the overall direction of growth.
8. (B) I and III only
Cyclical fluctuations are long-term movements around a secular trend, with the business cycle being a primary example. While these cycles represent periods of expansion and contraction, they do not follow a strict, regular pattern with identical amplitudes. The duration required to complete one full cycle from peak to peak or trough to trough is formally known as a period.
9. (A) Centering the moving averages
When calculating moving averages for a time series with an even number of data points per period, such as four quarters, the resulting

averages do not align with a specific time point. To fix this, a second set of moving averages is calculated from the first set. This centering process aligns the final values accurately with the middle of the quarters.

10. (D) I, II, and III

Second degree trends, also known as parabolic curves, are used when the data follows a non-linear path. The general equation is a quadratic formula that captures changes in the rate of growth or decline. To determine the numerical constants, one must solve three simultaneous normal equations. This allows the model to account for curvature in the time series data.

11. (A) Cyclical fluctuations exceed a year and are irregular, while seasonal cycles occur within a single year.

Cyclical fluctuations and seasonal variations differ primarily in their duration and predictability. Seasonal variations occur within a single year and follow a regular, repetitive pattern. In contrast, cyclical fluctuations extend over several years and represent broader economic cycles. Unlike seasonal changes, cyclical moves are often irregular and vary in their intensity and duration, making them harder to predict accurately.

12. (A) I, II, and III only

Time coding is a technique used to simplify the calculation of trend equations by centering the time variable at zero. In datasets with an odd number of observations, the middle year is zero. For even datasets, fractional codes are used and then multiplied by two to obtain integers. However, the intercept equals the mean of the dependent variable, not the independent variable.

13. (B) A regression of the variable of interest against its own lagged (past) values.

In an Autoregressive model, the term autoregression refers to the process of regressing a specific variable against its own historical or lagged values. This means the model uses past observations to predict future outcomes within the same time series. It assumes that the preceding values in the sequence have a direct linear influence on the current and future values.

14. (D) I, II, and IV only

Modified means are used to calculate seasonal indices by averaging values after removing the highest and lowest extremes. This process effectively eliminates irregular and cyclical components from the data. While an adjusting factor is used to ensure the final indices total 400 for quarterly data, the raw sum of modified means rarely equals 400 exactly without this mathematical adjustment.

15. (D) The MA model involves modeling the error term as a linear combination of past and present error terms.

Moving-average models are a fundamental component of time series forecasting where the variable is modeled as a linear combination of its current and past error terms. Unlike autoregressive models that use past values of the variable itself, MA models focus on the residuals. This approach helps in capturing the impact of random shocks or white noise within the series.

16. (B) II and III only

Linear trends are graphically represented by a straight line, indicating a constant rate of change over time. Curvilinear relationships, such as parabolic curves, are better suited for modeling complex patterns like product life cycles, which include phases of growth, stability, and decline. Secular trends describe long-term directions rather than short-term tendencies, and time series data must be recorded at regular intervals.

17. (B) The adjusting factor is calculated as 400 divided by the sum of the modified means.

To finalize the seasonal index for quarterly data, the sum of the modified means must be adjusted to total exactly 400. The adjusting factor is calculated by dividing the target sum of 400 by the actual sum of the modified means. This factor is then multiplied by each modified mean to ensure the final indices are standardized and comparable.

18. (B) I, II, III, and V only

Cyclical variation can be measured using the residual method, which isolates the cycle by comparing actual data to predicted trend values. The relative cycle residual and cyclical

variation as a percentage of trend are standard formulas for this analysis. Seasonal variations are predictable and repeat within a year. However, the ratio to moving average method specifically measures seasonal, not cyclical, variation.

19. (A) It can always be mathematically isolated to identify all underlying causes.

Irregular variation refers to random, unpredictable fluctuations that occur over short periods and do not follow any fixed pattern. These variations arise due to unforeseen factors and cannot be precisely measured or isolated mathematically. While they may seem chaotic, their effects tend to cancel out over time. Hence, the statement that they can always be mathematically isolated is incorrect. Cyclical variation can be measured using the residual method, which isolates the cycle by comparing actual data to predicted trend values. The relative cycle residual and cyclical variation as a percentage of trend are standard formulas for this analysis. Seasonal variations are predictable and repeat within a year. However, the ratio to moving average method specifically measures seasonal, not cyclical, variation.

20. (A) I, II, III, and IV only

Calculating seasonal variation involves a series of structured steps, starting with computing moving totals and centered moving averages. Analysts then find the percentage of actual values relative to these averages. Modified means are derived by removing outliers to clean the data. However, deseasonalisation is the application of the resulting index, not a step in the initial calculation of the index itself.

21. (D) The cyclical moves perfectly follow a regular and predictable amplitude from cycle to cycle.

Cyclical fluctuations describe the movement of a time series above and below the long-term secular trend. While these movements represent alternating periods of expansion and contraction, they do not possess a fixed or perfectly predictable amplitude. Each business cycle is unique in its duration and intensity. The time taken to complete a full cycle is formally defined as a period.

22. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Centering is a critical step when calculating moving averages for an even number of periods, such as four quarters. Because an even-numbered average falls between two time points, it does not represent any specific period. By taking a second moving average of these values, the data is centered and correctly aligned with the original quarters, ensuring accurate seasonal analysis.

23. (B) $a = \bar{y} - b\bar{x}$

To determine the coefficients for a parabolic trend, three specific normal equations are used. These involve the sums of the dependent variable, its relationship with time, and its relationship with squared time. The equation used to find the intercept in a simple linear regression is not used here because the parabolic model requires a different set of simultaneous equations to solve for constants.

24. (D) Assertion (A) is false, but Reason (R) is true.

Cyclical fluctuations, particularly in business cycles, involve periods where activity rises above or falls below the secular trend line. However, these cycles are notoriously irregular in terms of their duration and the magnitude of their peaks and slumps. They do not follow a perfectly predictable or fixed time pattern, making the assertion of perfect regularity in these cycles incorrect.

25. (A) An agricultural slump caused by a sudden, unexpected flood.

Seasonal variations are characterized by regular, periodic, and predictable movements that repeat within a calendar year, often due to weather or social customs. Increased flu cases in winter or higher resort bookings in summer are classic examples. In contrast, a sudden flood causing an agricultural slump is an unpredictable, random event, which classifies it as an irregular variation rather than seasonal.

26. (D) Assertion (A) is false, but Reason (R) is true.

Irregular variations are the result of random, unforeseen events like earthquakes or strikes,

which do not follow any predictable pattern. Because of their random nature, they cannot be easily or precisely isolated using mathematical methods like moving averages. While these methods help smooth data, they do not extract the pure irregular component, as it lacks a systematic structure.

27. (A) The steady increase in the cost of living as recorded by the Consumer Price Index.

A secular trend reflects the long-term, steady direction of a variable over many years. The persistent and general increase in the cost of living, as measured by the Consumer Price Index, serves as a prime example of an upward secular trend. Unlike volatile stock prices, seasonal sales, or unpredictable war-related spikes, this index shows a smooth, sustained tendency to rise over time.

28. (C) 12.5

In a linear trend model using coded time where the mean is zero, the slope is calculated by dividing the sum of the product of coded time and actual values by the sum of the squares of coded time. Given that the product sum is 125 and the sum of squares is 10, the resulting slope is 12.5. This represents the average change.

29. (B) Dividing the actual value by the seasonal index (as a fraction of 100).

Deseasonalisation is the process of removing seasonal effects from an observed data point to see the underlying trend. This is mathematically achieved by dividing the actual observed value by the seasonal index, expressed as a decimal or a fraction of 100. This calculation normalizes the data, allowing for a clearer interpretation of the cyclical and trend components without seasonal interference.

30. (C) $\sum y = an + c \sum x^2$

When fitting a second-degree parabolic trend and using time coding such that the sum of the coded time is zero, the standard normal equations are simplified. For calculating the sum of the dependent variable, the equation reduces to the sum of the intercept multiplied by the number of observations plus the second constant multiplied by the sum of squared time.

31. (D) A curvilinear relationship where sales increase, stabilize, and then decrease.

A business product's life cycle is best represented by a curvilinear or parabolic relationship rather than a straight line. This model captures the distinct phases a product undergoes, including an initial growth phase, a period of relative stability or maturity, and a final stage of decline. This non-linear pattern reflects the real-world dynamics of market entry, saturation, and eventual obsolescence.

32. (B) 148

To estimate the value using a parabolic equation, the coded time is substituted into the formula. With an intercept of 40, a linear coefficient of 15, and a quadratic coefficient of 3, a coded time of 4 yields a calculation of 40 plus 60 plus 48. Adding these components results in an estimated sales value of 148 for the specified future period.

33. (B) II, IV, III, I

Estimating a linear trend through time coding begins by finding the mean time of the dataset. Next, each sample time is subtracted from this mean to generate coded time values. Analysts then compute the slope using the ratio of the products and squares of these values. Finally, the y-intercept is determined, completing the construction of the trend line equation.

34. (B) -5.0%

The relative cyclical residual is calculated by taking the difference between the actual observed value and the estimated trend value, then dividing that difference by the estimated value. For an actual value of 114,000 and an estimate of 120,000, the difference is -6,000. Dividing this by 120,000 and multiplying by 100 results in a relative cyclical residual of -5.0%.

35. (A) P-3, Q-4, R-2, S-1

Different mathematical formulas serve specific roles in time series analysis. A linear equation represents a straight line trend, while a quadratic equation defines a parabolic curve. The ratio of actual to trend values expressed as a percentage measures cyclical variation. Finally, the relative cycle residual formula calculates the percentage deviation of the actual data from the established trend line.

36. (B) 0.9901

The adjusting constant for a quarterly seasonal index is derived by dividing the target sum of 400 by the actual sum of the modified means. When the sum of the modified means is 404, the calculation of 400 divided by 404 results in approximately 0.990099. Rounding this value to four decimal places gives the adjusting constant of 0.9901 used for normalization.

37. (D) P-3, Q-1, R-4, S-2

In a linear trend equation, each variable has a specific statistical meaning. The dependent variable represents the estimated trend value. Time is treated as the independent variable, often in coded form. The intercept constant indicates the value where the line crosses the y-axis, while the slope coefficient represents the constant rate of change in the data over time.

38. (C) 3,000

To find the deseasonalised value, the actual observed booking figure is divided by the seasonal index expressed as a decimal. With actual bookings at 2,748 and a seasonal index of 91.6, the calculation involves dividing 2,748 by 0.916. This operation results in a value of 3,000, which represents the data after the predictable seasonal fluctuations have been removed.

39. (B) Irregular Variation — Corrects itself over time following random patterns

Irregular variations are caused by random and unpredictable events that do not follow a systematic pattern. However, a key characteristic is that these random fluctuations tend to offset or correct themselves over a long enough period, as they do not represent a permanent shift in the trend. Seasonal variations are predictable, and MA models use lagged errors rather than just contemporaneous ones.

40. (A) ARMA model

A model that forecasts future values by combining the effects of past observations of the variable itself and the impact of contemporaneous and historical error terms is known as an ARMA model. This Autoregressive Moving-Average approach is widely used by central banks for inflation forecasting because it accounts for both the persistence of data and the influence of random shocks.

41. (A) Irregular Variation — Repetitive and highly predictable over long intervals

The statement that irregular variation is repetitive and highly predictable is incorrect. By definition, irregular variations are caused by random, unforeseen events like natural disasters or sudden strikes, making them entirely unpredictable. Other components like secular trends, cyclical fluctuations, and seasonal variations follow more structured patterns, whether they are long-term tendencies or repetitive cycles within a single year.

42. (B) A set of observations collected at successive points in time or over successive periods.

A time series is formally defined as a set of observations for a specific variable that are collected at successive, regular points in time or over consecutive time periods. This chronological sequencing is what allows analysts to identify patterns such as trends, cycles, and seasonal variations, distinguishing it from cross-sectional data which is collected at a single point.

43. (A) Only I

Secular trends are fundamental to time series analysis because they describe the long-term direction or general tendency of the data. While the first statement correctly identifies this role, the second is false. Business cycle trends are not exclusively downward; they consist of both expansions and contractions. The secular trend itself can be upward, downward, or constant depending on the variable.

44. (C) A repetitive and predictable movement around the trend line in one year or less.

Seasonal variation refers to the repetitive and predictable patterns of movement that occur within a time series over a period of one year or less. These fluctuations are usually tied to the calendar, such as weather changes or holidays. This regularity distinguishes seasonal variation from cyclical fluctuations, which occur over longer periods, and irregular variations, which are completely random.

45. (A) Only I

The relative cycle residual is a valid measure of cyclical variation, representing the percentage deviation of actual values from the estimated

trend. However, the second statement is incorrect because the residual method for cyclical variation involves dividing the actual data by both the trend and seasonal components, not just the seasonal index. Isolating components requires a multi-step decomposition process.

- 46.** (C) Secular Trend, Cyclical Fluctuation, Seasonal Variation, Irregular Variation
Time series data is traditionally decomposed into four distinct types of variations. The secular trend captures long-term direction. Cyclical fluctuations represent multi-year business cycles. Seasonal variations describe repetitive patterns within a year. Finally, irregular variations account for random, unpredictable shocks. These four components together explain the overall behavior and movement of the data over time.
- 47.** (A) I and II only
Studying secular trends allows researchers to evaluate the historical success of previous policies and project future growth rates for significant indicators like GDP and population. These trends focus on the smooth, long-term direction of data. However, they cannot isolate unpredictable irregular variations like earthquakes, which are random and do not follow the long-term trend or any predictable pattern.
- 48.** (C) 100
In the Ratio to Moving Average method, the seasonal index is calculated relative to a base value of 100. This base represents the average or normal level after removing other components. A value above 100 indicates a positive seasonal effect, while a value below 100 indicates a negative effect. This standardization makes it easy to interpret the intensity of seasonality.
- 49.** (D) I, II, and III
The Ratio to Moving Average method requires centering when dealing with an even number of data points, such as quarterly data, to ensure alignment with specific time periods. For odd-numbered periods, centering is not necessary. The moving average process is used to smooth the data, effectively reducing the impact of peaks and troughs to reveal the underlying seasonal index.

- 50.** (C) To simplify computation by making the mean time zero.

The primary conceptual reason for using coding in time series analysis is to simplify mathematical calculations. By transforming the time scale so that its mean is zero, analysts can eliminate complex terms in the normal equations used for fitting trends. This makes it much easier to solve for the intercept and slope coefficients without changing the underlying relationship.

- 51.** (B) I and III only
Autoregressive models forecast future values based on a linear combination of the variable's own historical observations. ARMA models integrate both these autoregressive components and moving average polynomials, which handle past error terms. Moving-average models specifically regress the variable against past errors, rather than against independent external metrics, making the second statement in the set incorrect.
- 52.** (D) To eliminate the extreme cyclical and irregular components of variation.
When calculating modified means for seasonal indices, discarding the highest and lowest values for each quarter is a standard procedure. This technique is designed to filter out extreme fluctuations caused by irregular events or intense cyclical phases. By removing these outliers, the resulting average more accurately represents the pure seasonal component, leading to a more reliable and stable index.
- 53.** (B) I, II, and III only
Seasonal variation is measured by its deviation from a base of 100. The sliding technique for moving totals ensures that the window of data stays current as it moves through the series. Moving averages are then derived by dividing these totals by the period count. However, the percentage calculation is the actual value divided by the average, not the inverse.
- 54.** (C) A curvilinear relationship is suitably demonstrated by the life cycle of a business product.
A curvilinear relationship is an appropriate model for the life cycle of a business product, as it can represent phases of growth, maturity, and

decline. Irregular variations are not predictable, and business cycles include both upward and downward movements. Additionally, cyclical residuals are typically expressed as percentages of the trend, not as a specific fraction of 1000.

55. (C) I, III, and IV only

Irregular variations are characterized by their short duration and occurrence at irregular, unpredictable intervals. They are often triggered by specific, unusual events such as extreme weather conditions, wars, or labor strikes. While they are completely random and do not follow any cyclical pattern, their effects are generally considered temporary, as these random fluctuations tend to correct themselves over time.

56. (A) Relative cycle residual is calculated using the formula $[(y - \hat{y}) / \hat{y}] \times 100$.

The residual method for measuring cyclical variation uses the formula for the relative cycle residual, which is the difference between actual and predicted values divided by the predicted value, expressed as a percentage. The percentage of trend is calculated by dividing actual values by predicted values, and the method is used to analyze historical data to understand past cyclical behavior.

57. (A) I, II, and V only

In time series trend equations, the predicted value of the dependent variable is denoted by the estimate symbol. The independent variable is often represented by coded time. For curvilinear models, a third constant is included. However, in standard linear equations, the intercept is usually the first constant and the slope is the coefficient of the time variable.

58. (B) It eliminates cyclical components to derive the seasonal index.

Trend analysis is used to project historical patterns into the future, evaluate the effectiveness of past policies, and clarify seasonal fluctuations by separating the trend component. However, deriving a seasonal index usually involves moving averages to smooth data and remove trend and cyclical elements, rather than using trend analysis specifically to eliminate cyclical components for the index.

59. (C) I, II, III, and IV only

AR models involve regressing a variable against its own past values, while MA models use past error terms. ARMA models successfully combine both of these elements. Time series forecasting generally operates on the assumption that historical trends provide a reliable basis for future behavior. ARMA models specifically include residuals in their forecasts to account for short-term shocks.

60. (C) For an even number of data points, the mean time falls exactly on one of the given years.

When a time series has an even number of data points, the mean time does not fall on a single specific year; instead, it falls exactly halfway between the two middle years. This necessitates the use of fractional codes, which are then doubled to create integers. For odd-numbered datasets, the middle year does indeed serve as the zero-coded mean.

61. (A) I, II, III, and V only

Curvilinear or parabolic trends are essential when the data path is not linear, requiring a quadratic equation. Solving for the constants involves simultaneous equations, which are greatly simplified by coding the time variable to center it. These models are particularly well-suited for capturing the complexities of a product life cycle, contrary to the suggestion that they are unsuitable.

62. (C) Decibels

Time series analysis measures variables over regular chronological intervals. Common units for the independent variable of time include years, quarters, months, weeks, and even days or hours. Decibels, however, are a unit used to measure the intensity of sound or signal power and have no relation to the measurement of time in a chronological data sequence.

63. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Coding the time variable is a standard practice in linear trend analysis. By transforming the time scale so that its mean is zero, the sum of the coded time variable also becomes zero. This mathematical adjustment simplifies the

normal equations significantly, allowing the intercept and slope to be calculated using much more direct and less computationally intensive formulas.

- 64.** (D) Dropping the highest and lowest actual data points before calculating moving totals. The Ratio to Moving Average method follows a specific sequence: calculating moving totals using a sliding technique, deriving moving averages, and finding the percentage of actual data to those averages. Discarding the highest and lowest values is a step performed later in the process to calculate the modified mean, not before calculating the initial moving totals.

- 65.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

To ensure that the seasonal indices are correctly standardized, an adjusting constant is applied to the modified means. For quarterly data, the sum of these indices must equal 400. Since the raw modified means often sum to a slightly different figure, multiplying them by an adjusting constant ensures the final seasonal indices are mathematically consistent and properly centered.

- 66.** (C) Completely unrelated cross-sectional variables
ARMA models are univariate time series models that rely exclusively on the history of the variable itself. They use autoregressive components and moving average components to forecast future values. They do not incorporate external, unrelated cross-sectional variables, as their purpose is to model the internal stochastic structure of a single time series.

- 67.** (B) 0
In a 5-year dataset spanning from 2018 to 2022, the middle year is 2020. When applying time coding to such a dataset, the middle year is assigned a value of zero to center the data. This centering ensures that the sum of the coded time values equals zero, which simplifies the subsequent calculation of the trend line coefficients.

- 68.** (D) Multiply the coded fraction values by 2.
When a time series contains an even number of intervals, the center point falls between two periods, leading to coded values that are fractions. To avoid working with these fractions and simplify calculations, all the initial coded values are multiplied by two. This results in a sequence of odd integers that still sum to zero, maintaining the computational benefits.

- 69.** (C) 6
If the year 2020 is coded as zero in a sequence where each year represents one unit, the coded values follow a simple integer progression. The year 2021 is coded as 1, 2022 as 2, and so on. Therefore, to forecast for the year 2026, which is six years after the center year of 2020, the coded value is 6.

- 70.** (C) The relative cyclical residual will be a negative percentage.
If the actual observed data for a specific period is lower than the value predicted by the secular trend, it indicates a downward deviation. In the context of cyclical variation, this results in a relative cyclical residual that is a negative percentage. It signifies that the business cycle is currently in a phase below the long-term trend line.

- 71.** (B) $b = \sum xy / \sum x^2$
In a second-degree parabolic trend model, the constant b represents the linear component of the change. When time coding is applied such that the sum of the coded time is zero, the normal equation for b simplifies significantly. It is calculated by dividing the sum of the product of coded time and actual values by the sum of squares.

- 72.** (A) II, IV, I, III
The process of determining a seasonal index begins with calculating sliding moving totals for the specified periods. Next, the moving averages are found and centered if the period is even. Analysts then calculate the percentage of actual values relative to these averages. Finally, modified means are computed by removing extreme values to stabilize the resulting seasonal index.

73. (B) 95%

Cyclical variation as a percentage of the trend is found by dividing the actual observed value by the estimated trend value and multiplying by 100. With an actual output of 114,000 tons and an estimated trend of 120,000 tons, the ratio is 0.95. Multiplying this by 100 results in a cyclical variation of 95% for the year 2020.

74. (B) P-4, Q-2, R-3, S-1

Secular trends represent long-term tendencies like the rising Consumer Price Index. Cyclical fluctuations involve multi-year business cycles with distinct peaks and slumps. Seasonal variations are predictable patterns that occur within a year, such as the winter increase in flu cases. Irregular variations are the result of random, unpredictable events like floods or wars that disrupt the series.

75. (A) The actual observed data perfectly matched the estimated trend data.

A relative cycle residual of exactly 0% indicates that there is no deviation between the actual observed data and the value predicted by the secular trend line. This means that for that specific point in time, the cyclical and irregular components effectively contributed nothing to the observed value, resulting in a perfect match with the long-term trend estimate.

76. (C) P-4, Q-3, R-1, S-2

AR models predict future values by regressing a variable against its own historical data. MA models focus on modeling the relationship between a variable and its error terms over time. ARMA models provide a comprehensive approach by combining both autoregressive and moving average polynomials. Secular trends describe the fundamental long-term direction that a time series follows over many years.

77. (B) 91.6

To find the final adjusted seasonal index, the modified mean is multiplied by the adjusting constant. If the modified mean for the first quarter is 92.5 and the adjusting constant is 0.9901, the calculation yields approximately 91.58. Rounding this result to one decimal place gives a final adjusted seasonal index of 91.6, ensuring the quarterly indices are standardized.

78. (C) P-4, Q-3, R-2, S-1

The seasonal index calculation follows a structured sequence. It starts with calculating moving totals using a sliding technique. The next step involves finding moving averages by dividing those totals by the number of periods. Following this, the percentage of actual values to moving averages is computed. The final stage involves adjusting these values to a standardized base of 100.

79. (D) AR model (Autoregressive)

When a forecasting model uses a linear combination of a variable's own past values to predict its future state, it is specifically applying an autoregressive model. This technique is common in economics for variables like inflation, where past performance is a strong indicator of future trends. It assumes the series is self-referential and influenced by its history.

80. (D) Straight line slope b (coded data) — $\sum xy / \sum x^2$

For a straight-line trend using coded data where the mean of time is zero, the slope coefficient is calculated as the sum of the product of time and the dependent variable divided by the sum of squared time. Other formulas, such as those for the adjusting factor or relative cycle residual, involve different ratios and constants to achieve their specific purposes.

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CHAPTER 06

Theory of Probability

Oct/Nov 2010

- Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): In reality, the value of an option at its worst can be zero, but it cannot be negative.
Reason (R): If the intrinsic value calculated as Stock Price (PP) minus Strike Price (SP) turns out to be negative, the call option is simply not exercised, rendering it worthless but not generating a negative price.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2025

- The Poisson probability distribution utilizes a constant denoted by 'e', named after the Swiss Mathematician L. Euler. What is the approximate value of this constant?
(A) 3.1415
(B) 2.7183
(C) 0.6745
(D) 0.7979

Oct/Nov 2018

- In probability mathematics, what is the established value of 0! (zero factorial)?
(A) 0
(B) 1
(C) Infinite
(D) Undefined

May/June 2014

- Which of the following real-life phenomena is LEAST likely to follow a Poisson distribution?
(A) The number of misprints on a page of a

book.

- The number of people in a community living to 100 years of age.
- The number of wrong telephone numbers dialed in a day.
- Percentage of marks achieved by a student in a test.

Oct/Nov 2005

- Which of the following statements accurately describes "Equally Likely Events"?
(A) Events where the happening of any one of them restricts the happening of the others simultaneously.
(B) Events that have no favourable outcomes and correspond to the null set.
(C) Events whose sample points taken together constitute the entire sample space of the experiment.
(D) Events that have an equal choice to occur, considering all relevant evidences.

May/June 2009

- Consider the following attributes regarding the Poisson Distribution:
I. It was introduced by S. D. Poisson.
II. The probability mass function is

$$f(x) = \frac{e^{-\lambda} \cdot \lambda^x}{x!}$$

III. The symbol 'e' used in the formula is the base of the natural logarithm.
IV. If λ is not an integer, the mode is the integral part lying between $\lambda-1$ and λ .
V. If λ is an integer, the distribution is bimodal with modes at $\lambda-1$ and λ .
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2022

- Which of the following is NOT an example of a random experiment or trial?

- (A) Tossing an unbiased coin to observe heads or tails.
- (B) Computing the deterministic product of two pre-defined integers.
- (C) Throwing a standard dice to observe the number on the face.
- (D) Selecting a card at random from a shuffled pack of cards.

May/June 2017

8. What is the defined mathematical value of the Quartile Deviation for a normal distribution?
- (A) 0.6745σ
 - (B) 0.7979σ
 - (C) 1.65σ
 - (D) 2.33σ

Oct/Nov 2011

9. Consider the following statements regarding combinations and permutations:
- I. Factorial n is denoted by $n! = n \times (n-1) \times \dots \times 2 \times 1$.
 - II. The notation for combinations is $C(n,r)$ denoting permutations where order matters.
 - III. Permutation and Combination are related by the formula $P(n,r) = r! \div C(n,r)$.
 - IV. The combination of three things taken two at a time is given by 3.
 - V. nCr is calculated as $n! / [r!(n-r)!]$.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III only
 - (B) I, IV, and V only
 - (C) II, III, and IV only
 - (D) I, III, IV, and V only

May/June 2024

10. Match the Normal Distribution properties in List I with their corresponding values in List II.
- List I: (Property)
- P. Mean Deviation
 - Q. Quartile Deviation
 - R. Total Area under the curve
 - S. Mean for Standard Normal Variable Z
- List II: (Value)
- 1. 0.7979σ
 - 2. 0.6745σ
 - 3. 1
 - 4. 0
- (A) P-1, Q-2, R-3, S-4

- (B) P-2, Q-1, R-4, S-3
- (C) P-1, Q-3, R-2, S-4
- (D) P-3, Q-4, R-1, S-2

Oct/Nov 2008

11. A bank branch has 7 managers and 6 clerks. A special audit committee is to be formed comprising exactly 3 managers and 4 clerks. In how many ways can the 4 clerks be selected from the group of 6 clerks?
- (A) 15 ways
 - (B) 24 ways
 - (C) 30 ways
 - (D) 360 ways

May/June 2006

12. A normal population of 1000 employees has a mean daily income of Rs. 800 and a variance of 400. What is the value of the standard deviation (σ) for this normal distribution?
- (A) 10
 - (B) 20
 - (C) 400
 - (D) 800

Oct/Nov 2017

13. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
- Assertion (A): For two mutually exclusive events A and B, the probability of the occurrence of A or B is $P(A \cup B) = P(A) + P(B)$.
- Reason (R): Mutually exclusive events are disjoint, meaning $A \cap B = \phi$, and consequently $P(A \cap B) = 0$.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

14. A normal population of 1000 employees has a mean daily income of Rs. 800 and a variance of 400. If the probability corresponding to $P(Z > -5)$ is essentially 1, approximately how many

employees out of the 1000 earn more than Rs. 700 per day?

- (A) 500
- (B) 700
- (C) 835
- (D) 1000

Oct/Nov 2013

15. Match the type of event in List I with its corresponding mathematical characteristic in List II.

List I: (Type of Event)

- P. Certain Event
- Q. Impossible Event
- R. Mutually Exclusive Events
- S. Complementary Events

List II: (Mathematical Characteristic)

- 1. $A \cap B = \varnothing$
- 2. $A \cup B = S$ and $A \cap B = \varnothing$
- 3. A corresponds to set $\varnothing$
- 4. Event points are same as sample space S
- (A) P-2, Q-3, R-1, S-4
- (B) P-1, Q-4, R-2, S-3
- (C) P-4, Q-3, R-1, S-2
- (D) P-3, Q-1, R-4, S-2

May/June 2015

16. In the calculation of Expected Loss for credit risk, what does the term “Loss Given Default” (LGD) primarily represent?

- (A) The absolute numerical probability that the borrower will completely fail to repay the loan.
- (B) The total value of the loan at the time of exposure multiplied by the probability of default.
- (C) The amount of cash flows interrupted when a borrower does not repay the loan within 30 days.
- (D) The estimation of the part of the loan which will be lost in case a default occurs.

Oct/Nov 2012

17. Consider the following statements about complementary events A and A^c :

- I. The complementary event of A is the non-occurrence event of A.
- II. If A and A^c are complementary events, they are exhaustive as well as mutually exclusive.
- III. The probability of a complementary event is given by $P(A^c) = 1 - P(A)$.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

May/June 2011

18. Match the credit risk type in List I with its primary characteristic in List II.

List I: (Credit Risk Type)

- P. Credit Default Risk
- Q. Concentration Risk
- R. Sovereign Risk
- S. Value at Risk (VaR)

List II: (Primary Characteristic)

- 1. Unwillingness of a central bank to meet obligations
- 2. Measured by maximum risk over a specific period for a portfolio
- 3. 90 days pass the due date of loan repayment
- 4. Adverse occurrence inflicts large losses due to exposure to a single group
- (A) P-3, Q-4, R-1, S-2
- (B) P-4, Q-3, R-2, S-1
- (C) P-1, Q-2, R-3, S-4
- (D) P-3, Q-1, R-4, S-2

Oct/Nov 2020

19. Consider the following statements regarding independent events in probability:

- I. Two events A and B are independent if the occurrence or non-occurrence of one affects the occurrence of the other.
- II. For independent events A and B, $P(A \cap B) = P(A) P(B)$.
- III. If A and B are independent, then $P(A \cap B^c) = P(A) P(B^c)$.
- IV. The conditional probability $P(A/B)$ for independent events is equal to $P(A)$.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, III, and IV

May/June 2022

20. Consider the following statements regarding the expected recovery from a defaulted loan:

- I. The lender takes into account that even when default occurs, it might still get back

some part of the loan.

- II. The estimation of the part of the loan which will be lost is designated as $(1 - \text{LGD})$.

Which of the above statement(s) is/are correct?

- (A) I only
- (B) II only
- (C) Both I and II
- (D) Neither I nor II

Oct/Nov 2023

21. Which of the following is an INCORRECT pairing of a random variable type and its real-life example?
- (A) Discrete Random Variable - Number of arrivals in a clinic
 - (B) Discrete Random Variable - Number of accidents
 - (C) Continuous Random Variable - Percentage of marks
 - (D) Continuous Random Variable - Age measured in whole years

May/June 2016

22. XYZ Bank Ltd has lent a loan of Rs. 3,500,000 to a real estate company. The internal rating assigns a probability of default of 0.20%. What is the Probability of Default (PD) expressed as a decimal multiplier?
- (A) 0.20
 - (B) 0.02
 - (C) 0.002
 - (D) 0.0002

Oct/Nov 2009

23. Consider the following statements about Probability Distributions:
- I. For a discrete random variable, the distribution is called a Probability Mass Function (PMF).
 - II. For a continuous random variable, the probability that it will assume a particular exact value is zero.
 - III. A Probability Density Function (PDF) represents the exact probability of a continuous variable at a specific discrete point.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only

- (C) I and III only
- (D) I, II, and III

May/June 2023

24. XYZ Bank Ltd has lent a loan of Rs. 3,500,000 to a real estate company. Using the data where $\text{PD} = 0.20\%$ and $\text{LGD} = 57\%$, what is the calculated Expected Loss?
- (A) Rs. 3,010
 - (B) Rs. 3,990
 - (C) Rs. 30,100
 - (D) Rs. 39,900

Oct/Nov 2018

25. Consider the following statements regarding Random Variables and their distributions:
- I. A probability distribution describes all possible values of a random variable and their corresponding probabilities.
 - II. For a PMF, the sum of all probabilities $\sum f(x)$ must equal 1.
 - III. For a PDF, the area bounded by the curve $f(x)$ and the x-axis must equal 1.
 - IV. The probability density function is represented as $f(x) \geq 0$ for all x.
 - V. The Cumulative Distribution Function $F(x)$ is defined as $P(X \geq x)$.
- Which of the above statement(s) is/are correct?
- (A) I, II, III, and IV only
 - (B) II, III, IV, and V only
 - (C) I, II, IV, and V only
 - (D) I, III, IV, and V only

May/June 2007

26. Which of the following best defines the primary purpose of calculating Value at Risk (VaR) for an investment portfolio?
- (A) To eliminate the probability of loss by structuring equivalent risk-free portfolios.
 - (B) To estimate the maximum potential loss in a portfolio at a specific confidence level.
 - (C) To guarantee a fixed interest return by converting equity shares into debt funds.
 - (D) To evaluate the strict time to maturity value difference between a call option and a put option.

Oct/Nov 2025

27. In the context of a random variable X, what does the Variance $V(X)$ mathematically measure?

- (A) The average squared deviation of the variable from its mean.
- (B) The absolute deviation of the maximum probability from the minimum probability.
- (C) The square root of the standard deviation of the random variable.
- (D) The continuous sum of all possible outcomes bounded by the probability density curve.

May/June 2012

28. Consider the following characteristics related to Value at Risk (VaR):
- I. It is associated with the portfolio of an individual or an organisation.
 - II. A portfolio can include fixed deposits, equity shares, derivatives, and property.
 - III. VaR helps estimate the maximum risk of an investment over a specific period.
 - IV. The VaR calculation method assumes that stock returns are normally distributed.
 - V. It gives a measure of probability of losing with a defined confidence level, such as 95% or 99%.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV only
- (B) II, III, IV, and V only
- (C) I, III, IV, and V only
- (D) I, II, III, IV, and V

Oct/Nov 2014

29. Arrange the following steps in the correct logical sequence to compute the Variance $V(X)$ of a discrete random variable X based on the formula $V(X) = \sum (x - E(X))^2 f(x)$:
1. Multiply each squared difference by its corresponding probability mass function $f(x)$ and sum the results.
 2. Calculate the Expected Value $E(X)$ of the discrete random variable.
 3. Square the resulting differences to ensure they represent absolute scatterness.
 4. Subtract the Expected Value $E(X)$ from each possible outcome x .
- (A) 2, 4, 3, 1
 - (B) 1, 2, 4, 3
 - (C) 4, 3, 2, 1
 - (D) 2, 3, 4, 1

30. Which of the following best describes the difference between an option contract and a forward contract?

May/June 2019

- (A) A forward contract gives the holder the right but not the obligation, whereas an option involves obligation for both parties.
- (B) A forward contract protects against upward price movements only, whereas an option protects against downward price movements only.
- (C) In a forward contract, both parties have an obligation to meet commitments, whereas an option gives the right without obligation.
- (D) An option contract derives its value from the underlying asset, whereas a forward contract is an independent non-derivative financial tool.

Oct/Nov 2006

31. A discrete random variable X has the following probability distribution: $X = 1$ with probability 0.3, $X = 2$ with probability 0.5, and $X = 3$ with probability 0.2. What is the Variance $V(X)$ of these returns?

- (A) 0.49
- (B) 0.69
- (C) 0.70
- (D) 1.90

May/June 2021

32. Identify the CORRECT pair classifying the type of option based on its exercise rights.
- (A) Call Option - Right to sell the underlying asset.
 - (B) Put Option - Right to buy the underlying asset.
 - (C) American Option - Right to exercise strictly on or after the maturity date.
 - (D) European Option - Right to exercise only on the maturity date.

Oct/Nov 2010

33. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
- Assertion (A): If the calculated mode component $M = (n+1)p$ of a binomial distribution is an integer, the distribution is bimodal.
- Reason (R): When M is an integer, the two

modes of the binomial distribution occur at exactly M-1 and M.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2005

34. Which of the following is INCORRECT regarding the Black-Scholes Option Pricing Model (BSOPM)?
- (A) It assumes that the price moves continuously.
 - (B) It assumes that returns are normally distributed.
 - (C) It assumes that price moves at discrete intervals, going up by u percent or down by d percent.
 - (D) It is largely used by option traders who buy options priced under the formula calculated value.

Oct/Nov 2022

35. Which of the following scenarios is NOT suitably represented by a Binomial Distribution?
- (A) Assessing the exact number of misprints found randomly across a 500-page book.
 - (B) Determining whether a newly introduced drug successfully cures a disease or fails to cure it.
 - (C) Purchasing a lottery ticket resulting in either winning money or not winning money.
 - (D) Tossing a coin ten times and representing the number of times a head appears.

May/June 2018

36. Match the Option Valuation variables in List I with their formal descriptions in List II based on the Black-Scholes model.

List I: (Variable)

P. C

Q. S

R. X

S. r

List II: (Description)

1. Rate of interest
 2. Strike price of the option
 3. Price of the underlying asset
 4. Price of a call option
- (A) P-4, Q-3, R-2, S-1
 - (B) P-3, Q-4, R-1, S-2
 - (C) P-1, Q-2, R-3, S-4
 - (D) P-2, Q-1, R-4, S-3

Oct/Nov 2016

37. Consider the following formulas associated with a Binomial Distribution where n is the number of trials, p is the probability of success, and q is the probability of failure:
- I. Mean = np
 - II. Variance = np(1 - p)
 - III. Measure of Skewness = $(1 - 2p) / \sqrt{npq}$
 - IV. Measure of Kurtosis = $3 + (1 - 6pq) / npq$
- Which of the above statement(s) is/are correct?
- (A) I, II, and III only
 - (B) I, II, and IV only
 - (C) II, III, and IV only
 - (D) I, II, III, and IV

May/June 2014

38. Consider the following statements regarding the components that influence option prices:
- I. The value of an option on the date of maturity is just the difference between the strike price and the stock price, known as intrinsic value.
 - II. On any day prior to the date of maturity, the option carries time value, in addition to intrinsic value.
 - III. As time to maturity decreases, the time value of the option strictly increases.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

Oct/Nov 2007

39. A hospital emergency ward observes that births occur randomly at an average rate of 1.8 births per hour. Based on the Poisson Distribution, which of the following represents the probability formula of observing exactly 0 births in a given hour?
- (A) $\frac{e^{-1.8} \times 0^{1.8}}{1.8!}$

- (B) $\frac{e^{-1.8} \times 1.8^0}{0!}$
 (C) $\frac{1.8 \times e^0}{0!}$
 (D) $\frac{e^{1.8} \times 1.8^0}{0!}$

May/June 2025

40. What is the most appropriate reason a buyer would choose to enter into an option contract over a forward contract when facing uncertain price movements?
 (A) It offers protection against adverse price moves while preserving the potential for gain.
 (B) An option contract completely eliminates the premium cost associated with forward contracts.
 (C) An option contract inherently guarantees a fixed interest rate yield superior to equivalent portfolios.
 (D) An option contract legally obligates both the buyer and seller to trade, ensuring no counterparty default.

Oct/Nov 2019

41. A hospital emergency ward observes that births occur randomly at an average rate of 1.8 births per hour. Which of the following represents the Measure of Skewness (β_1) for this distribution of births?
 (A) 1.8
 (B) $1 / (1.8)$
 (C) $1 / \sqrt{(1.8)}$
 (D) $3 + (1 / 1.8)$

May/June 2009

42. Which of the following best defines a permutation in the context of probability theory?
 (A) The arrangement of objects in which the order of the objects is irrelevant.
 (B) The arrangement of objects in which the stipulated order of the objects is the priority.
 (C) The product of all positive integers which are less than or equal to a given integer.
 (D) The set of all possible outcomes of a random experiment conducted under identical conditions.

Oct/Nov 2011

43. Match the statistical measures in List I with their corresponding formulas for a Poisson Distribution in List II, where λ is the parameter.

List I: (Statistical Measure)

- P. Mean
 Q. Variance
 R. Measure of Skewness
 S. Measure of Kurtosis

List II: (Formula)

1. $3 + 1/\lambda$
 2. λ
 3. λ
 4. $1/\lambda$
 (A) P-2, Q-3, R-4, S-1
 (B) P-4, Q-1, R-2, S-3
 (C) P-3, Q-4, R-1, S-2
 (D) P-1, Q-2, R-3, S-4

May/June 2010

44. What is the fundamental difference between a permutation and a combination?
 (A) Permutation requires selecting all items at once, whereas combination allows selecting some items over a period of time.
 (B) Permutation restricts the selection to numerical values, whereas combination applies to both numbers and objects.
 (C) Permutation requires a stipulated order, whereas combination involves selection where order is irrelevant.
 (D) Permutation dictates that the arrangement order is irrelevant, whereas combination dictates that the order is the priority.

Oct/Nov 2024

45. Consider the following statements about the Poisson Distribution:

- I. It describes a random variable taking on values 0, 1, 2, ..., with parameter $\lambda > 0$.
 II. The mean and the variance of a Poisson distribution are always equal to λ .
 III. If λ is an integer, the mode is a single value situated exactly at λ .

Which of the above statement(s) is/are correct?

- (A) I and II only
 (B) II and III only
 (C) I and III only
 (D) I, II, and III

May/June 2017

46. Which of the following statements regarding mutually exclusive events is incorrect?
- (A) Two events are mutually exclusive if the happening of one restricts the happening of the other.
 - (B) If two events are mutually exclusive, they cannot happen together in the same trial.
 - (C) If events A and B are mutually exclusive events of sample space S, then $A \cap B = S$.
 - (D) In tossing a coin, the event of getting a head and the event of getting a tail are mutually exclusive.

Oct/Nov 2005

47. In the context of Normal Distribution, how is a Standard Normal Variable Z generally defined?
- (A) A Normal variable where the mean $\mu = 1$ and variance $\sigma^2 = 0$.
 - (B) A Normal variable where the mean $\mu =$ variance σ^2 .
 - (C) A Normal variable where the area under the normal curve is strictly 0.5.
 - (D) A Normal variable where the mean $\mu = 0$ and variance $\sigma^2 = 1$.

May/June 2020

48. Which of the following best describes "Exhaustive Events" in a sample space S?
- (A) Events whose corresponding sample points are strictly disjoint and contain no common elements.
 - (B) Events that contain the exact same sample points as the entire sample space individually.
 - (C) Events that have absolutely no favourable outcomes in any trial of the experiment.
 - (D) Events whose points together constitute the entire sample space.

Oct/Nov 2015

49. Which of the following statements regarding the properties of a Normal Distribution is INCORRECT?
- (A) The graph of a Normal Distribution is bell-shaped and symmetric.
 - (B) The mean deviation of a normal distribution is 0.6745σ .
 - (C) The total area under the normal curve is exactly 1.
 - (D) For a normal distribution, Mean = Median

$$= \text{Mode} = \mu.$$

May/June 2013

50. A bank branch has 7 managers and 6 clerks. A special audit committee is to be formed comprising exactly 3 managers and 4 clerks. In how many ways can the 3 managers be selected from the group of 7 managers?
- (A) 21 ways
 - (B) 35 ways
 - (C) 120 ways
 - (D) 210 ways

Oct/Nov 2021

51. Consider the following statements about the Normal Distribution curve:
- I. Approximately 50% of the data will fall to the left of the mean, and 50% will fall to the right.
 - II. The height of people in a specific population generally follows a normal distribution.
 - III. The continuous random variable X follows a Normal Distribution if its PDF includes the parameters μ and σ^2 .
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

May/June 2024

52. A bank branch has 7 managers and 6 clerks. A special audit committee is to be formed comprising exactly 3 managers and 4 clerks. What is the total number of ways the audit committee of 3 managers and 4 clerks can be selected?
- (A) 50 ways
 - (B) 315 ways
 - (C) 525 ways
 - (D) 840 ways

Oct/Nov 2008

53. A normal population of 1000 employees has a mean daily income of Rs. 800 and a variance of 400. What is the Z-score for an employee earning exactly Rs. 760 per day?
- (A) -2
 - (B) -0.5
 - (C) +2
 - (D) +4

May/June 2006

54. What is the mathematical boundary for the probability $P(A)$ of an event A occurring?
- (A) $0 \leq P(A) < 1$
 (B) $0 < P(A) \leq 1$
 (C) $0 \leq P(A) \leq 1$
 (D) $-1 \leq P(A) \leq 1$

Oct/Nov 2017

55. How is "Credit Default Risk" specifically defined in the context of probability and banking?
- (A) The risk that arises out of significant exposure to any single individual or group.
 (B) Loss incurred when a borrower fails to repay within 90 days of the due date.
 (C) The risk of a government being unwilling to meet its contractual obligations.
 (D) The risk associated with the daily fluctuation of equity shares and mutual funds.

May/June 2008

56. Consider the following statements regarding the Addition Theorem of probability:
- I. For two non-disjoint events A and B , $P(A \cup B) = P(A) + P(B) - P(A \cap B)$.
 II. For three non-mutually exclusive events A , B , and C , $P(A \cup B \cup C) = P(A) + P(B) + P(C) - P(A \cap B) - P(B \cap C) - P(A \cap C) + P(A \cap B \cap C)$.
 Which of the above statement(s) is/are correct?
- (A) I only
 (B) II only
 (C) Both I and II
 (D) Neither I nor II

Oct/Nov 2013

57. Which of the following best describes "Country Risk" or "Sovereign Risk"?
- (A) The risk of a government entity failing to meet its contractual obligations.
 (B) The risk that arises out of significant exposure to a single corporate entity in a foreign country.
 (C) The risk that a bond issuer may fail to make a payment when requested by a domestic entity.
 (D) The risk associated with calculating expected loss for mortgages and credit cards across national borders.

May/June 2015

58. Which of the following statements regarding Conditional Probability is incorrect?
- (A) $P(B/A)$ denotes the probability of event B given that event A has already occurred.
 (B) If events A and B are independent, the conditional probability of A given B is simply $P(A)$.
 (C) The probability of simultaneous occurrence of events A and B is given by $P(A \cap B) = P(A) P(B/A)$.
 (D) Two events are independent if the occurrence of one does not affect the occurrence of the other.

Oct/Nov 2012

59. Consider the following variables and assumptions used in the formula for computing Expected Loss?
- I. Expected Loss
 II. Probability of Default (PD)
 III. Exposure at Default (EAD)
 IV. Loss Given Default (LGD)
 Which of the above statement(s) is/are correct regarding the formula for computing Expected Loss?
- (A) Expected Loss = $PD \times EAD \times (1 - LGD)$
 (B) Expected Loss = $PD \times EAD \times LGD$
 (C) Expected Loss = $(PD + EAD) \times (1 - LGD)$
 (D) Expected Loss = $PD / EAD \times (1 - LGD)$

May/June 2011

60. How is a continuous random variable defined in probability theory?
- (A) A random variable that takes a finite number of possibilities.
 (B) A random variable that takes a countable infinite number of possibilities.
 (C) A random variable that takes an infinite number of possibilities.
 (D) A function that associates a categorical label with each element in the sample space.

Oct/Nov 2020

61. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
 Assertion (A): When calculating the expected loss in advance, a bank multiplies the Probability of Default (PD), the Exposure at

Default (EAD), and the Loss Given Default (LGD).

Reason (R): Expected loss represents the total loan value less the guaranteed recovery amount provided by a sovereign entity.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2022

62. Which of the following is NOT an example of a discrete random variable?
- (A) The number of customers arriving in a bank at a particular time.
 - (B) The number of weeks until a person wins a lottery prize.
 - (C) The weight of customers entering a bank branch.
 - (D) The number of misprints on a page of a book.

Oct/Nov 2023

63. XYZ Bank Ltd has lent a loan of Rs. 3,500,000 to a real estate company. The Loss Given Default (LGD) is estimated to be 57%. What percentage of the exposure is implicitly expected to be recovered in the event of default?
- (A) 0%
 - (B) 43%
 - (C) 57%
 - (D) 100%

May/June 2016

64. Which of the following accurately represents a property of the Cumulative Distribution Function (CDF), $F(x)$, of a random variable X ?
- (A) $F(x)$ is a decreasing function and continuous from the right.
 - (B) $F(x)$ is a non-decreasing function bounded strictly between -1 and 1.
 - (C) $F(x)$ calculates the probability that X is strictly greater than x .
 - (D) The limits of $F(x)$ are $F(-\infty) = 0$ and

$$F(+\infty) = +1.$$

Oct/Nov 2014

65. According to the concept of Value at Risk (VaR), what is the main drawback of using volatility as a primary measure of risk?
- (A) Volatility assumes that the stock returns are strictly binomially distributed.
 - (B) It measures risk in both directions, ignoring whether the move is a gain or a loss.
 - (C) Volatility is incapable of capturing risk associated with non-equity assets like fixed deposits.
 - (D) Volatility cannot be mathematically applied to worst-case scenario confidence levels like 99%.

May/June 2023

66. Which of the following best describes the "Expectation" or "Expected Value" $E(X)$ of a random variable?
- (A) The measure of scatterdness of data points around the median.
 - (B) The most frequently occurring value in a series of random experiment repetitions.
 - (C) The average value expected per repetition across the distribution.
 - (D) The difference between the highest and lowest possible outcomes of the random variable.

Oct/Nov 2007

67. Consider the following statements regarding the formulas for computing Value at Risk (VaR):
- I. VaR at 95% confidence level assumes a standard deviation multiplier of 1.65.
 - II. VaR at 99% confidence level assumes a standard deviation multiplier of 2.33.
- Which of the above statement(s) is/are correct?
- (A) I only
 - (B) II only
 - (C) Both I and II
 - (D) Neither I nor II

May/June 2019

68. Identify the CORRECT pair relating to the properties of Expectation and Variance for a random variable X , where 'a' and 'b' are constants.

- (A) $E(aX + b) = a^2 E(X) + b$
 (B) $V(aX + b) = a V(X)$
 (C) $E(aX + b) = a E(X) + b^2$
 (D) $V(aX + b) = a^2 V(X)$

Oct/Nov 2025

- 69.** Consider the following variables and assumptions used in the VaR formula for a 99% confidence level:
- Return of the portfolio
 - The standard deviation (volatility measure) of the stock prices
 - A multiplier constant of 2.33
 - The discrete binomial intervals of stock price movement
- Which of the above statement(s) is/are correct regarding the components of the 99% VaR calculation method?
- (A) I, II, and III only
 (B) I, II, and IV only
 (C) II, III, and IV only
 (D) I, III, and IV only

May/June 2020

- 70.** A continuous assessment ranks an investment's returns as a discrete random variable X with the following probability distribution:
- $X = 1$ with probability 0.3
 $X = 2$ with probability 0.5
 $X = 3$ with probability 0.2
- What is the Expected Value $E(X)$ of this investment return?
- (A) 1.5
 (B) 1.9
 (C) 2.0
 (D) 2.1

Oct/Nov 2016

- 71.** Identify the INCORRECT pair detailing the impact of an individual factor on the price of an option.
- (A) Strike Price - Higher the strike price, lower the call price.
 (B) Volatility - Higher the volatility, lower the put price.
 (C) Stock Price - Higher the stock price, higher the call price.
 (D) Time to Maturity - Higher the time to maturity, higher the put price.

NODIA

May/June 2010

- 72.** A discrete random variable X has the following probability distribution: $X = 1$ with probability 0.3, $X = 2$ with probability 0.5, and $X = 3$ with probability 0.2. What is the value of the Cumulative Distribution Function $F(2)$?
- (A) 0.3
 (B) 0.5
 (C) 0.8
 (D) 1.0

Oct/Nov 2009

- 73.** Which of the following statements correctly identifies the relationship dictating the minimum value of an option price based on the principles of 'no arbitrage'?
- (A) The call price must at least equal the stock price minus the present strike price.
 (B) The call option price should at least be the sum of the prevailing stock price and the future strike price.
 (C) The put option price should never exceed the time value minus the intrinsic value.
 (D) The value of an option at worst can be negative if the prevailing price is lower than the strike price.

May/June 2021

- 74.** Which of the following statements concerning the symmetry of a Binomial Distribution is correct?
- (A) A Binomial Distribution is symmetric only when the number of trials n is infinite.
 (B) The distribution is symmetric when the probability of success equals 0.5.
 (C) A Binomial Distribution is positively skewed exclusively when p is greater than 0.5.
 (D) A Binomial Distribution is negatively skewed exclusively when p is less than 0.5.

Oct/Nov 2011

- 75.** Which of the following is NOT an assumption made in the Binomial Option Pricing Model (BOPM)?
- (A) Asset prices move continuously following a standard normal distribution.
 (B) Price moves at discrete intervals.
 (C) There are in all n intervals.
 (D) The probability of upward movement is p and downward movement is $(1 - p)$.

May/June 2012

76. Consider the following statements regarding the Mode of a Binomial Distribution:
- If $M = (n+1)p$ is not an integer, the mode is the integral part lying between $M - 1$ and M .
 - If $M = (n+1)p$ is an integer, the distribution has exactly one mode equal to M .
- Which of the above statement(s) is/are correct?
- I only
 - II only
 - Both I and II
 - Neither I nor II

Oct/Nov 2019

77. Arrange the following assumptions logically to build the Binomial Option Pricing Model (BOPM) as outlined in the theory of options:
- The probability of upward movement is defined as p , and downward movement is $(1 - p)$.
 - During each interval, the price either goes up by u per cent or goes down by d per cent.
 - It is established that the price moves at discrete intervals.
 - At the end of every interval, the price is either $(1 + u)$ times or $(1 - d)$ times the previous price.
- 3, 2, 4, 1
 - 1, 3, 2, 4
 - 2, 4, 1, 3
 - 4, 1, 3, 2

May/June 2018

78. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
- Assertion (A): A binomial distribution is negatively skewed when the probability of success (p) is greater than 0.5.
- Reason (R): The measure of skewness for a binomial distribution is directly proportional to the variance npq .
- Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - Assertion (A) is true, but Reason (R) is

false.

- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

79. Consider the following variables and terms related to the put-call parity theorem:
- Price of a call option (C)
 - Price of a put option (P)
 - Price of the underlying asset (S)
 - Strike price of the option (X or K)
 - Time to expiration (T-t)
- Which of the above statement(s) is/are actively utilized to determine the price of a corresponding put option according to the put-call parity formula?
- I, II, III, and IV only
 - II, III, IV, and V only
 - I, III, IV, and V only
 - I, II, III, IV, and V

May/June 2007

80. A hospital emergency ward observes that births occur randomly at an average rate of 1.8 births per hour. What is the Variance of the distribution of births in a given hour?
- 0.9
 - 1.8
 - 3.24
 - 3.6

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ANSWERS

1. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Financial options provide the holder with the right, but not the obligation, to execute a trade. When the potential exercise value, calculated as the difference between the stock price and strike price, becomes negative, the holder simply allows the option to expire. This ensures that the instrument's intrinsic value remains at zero rather than becoming negative in any real-world scenario.
2. (B) 2.7183
In probability theory, specifically within the Poisson distribution formula, the mathematical constant e serves as the base of natural logarithms. This irrational number, named after Leonhard Euler, has an approximate numerical value used for calculating exponential growth or decay. Within statistical applications and standardized distribution tables, this constant is consistently represented by the specific four-decimal approximation of two point seven one eight three.
3. (B) 1
The factorial of zero is a fundamental convention in mathematics and combinatorics. It is defined as having a value of one to ensure consistency across various formulas, including those for permutations and combinations. Without this definition, many probability equations would involve division by zero or produce logically incorrect results. This standard allows for the empty set to be arranged in exactly one way.
4. (D) Percentage of marks achieved by a student in a test.
Poisson distributions model the number of times a random event occurs within a fixed interval of time or space. Events like misprints, rare centenarians, or wrong phone calls occur randomly and independently. However, student test scores represent a percentage of a finite total, which typically follows a normal distribution curve rather than modeling rare, discrete events occurring in a continuous interval.
5. (D) Events that have an equal chance to occur, considering all relevant evidences.
In probability theory, events are considered equally likely when there is no objective reason to expect one to occur in preference to others. Each outcome has an identical chance of being selected or occurring during a random experiment. This concept forms the basis of the classical definition of probability, assuming that all relevant conditions and evidences are perfectly balanced for the experiment.
6. (D) I, II, III, IV, and V
The Poisson distribution, introduced by Simeon Denis Poisson, utilizes a specific probability mass function involving the mathematical constant e . It is characterized by its parameter λ , which represents the mean. The distribution can be unimodal or bimodal depending on whether λ is an integer. These combined attributes correctly define the mathematical structure and properties used in analyzing rare, discrete events in statistics.
7. (B) Computing the deterministic product of two pre-defined integers.
A random experiment is a process where the result cannot be predicted with certainty, even though all possible outcomes are known. Tossing coins, throwing dice, and selecting cards from a deck involve uncertainty and chance. In contrast, calculating the product of two pre-defined integers is a deterministic mathematical operation where the outcome is fixed and predictable with absolute certainty every time.
8. (A) 0.6745σ
In a normal distribution, the spread of data is described using standard deviation. The quartile deviation, also known as the semi-interquartile range, represents the distance from the mean that encompasses twenty-five percent of the observations on either side. Mathematically,

this specific measure of dispersion is established as approximately zero point six seven four five times the standard deviation of the data set.

9. (B) I, IV, and V only

Permutations involve ordered arrangements, while combinations focus on selection where order is irrelevant. The formula for combinations correctly identifies the number of ways to select items from a set. Factorial notation accurately represents the product of descending integers. While permutations and combinations are related through factorials, the specific statements regarding order-independent selection and the factorial formula accurately describe fundamental counting principles.

10. (A) P-1, Q-2, R-3, S-4

The properties of a normal distribution follow fixed mathematical relationships with the standard deviation. The mean deviation is approximately zero point seven nine seven nine times the standard deviation. The quartile deviation equals zero point six seven four five times the standard deviation. Furthermore, the total area under the curve is always one, and the mean of a standard normal variable is zero.

11. (A) 15 ways

To find the number of ways to select four clerks from a total of six, the combination formula is applied. This involves calculating six factorial divided by the product of four factorial and two factorial. This mathematical operation simplifies to fifteen distinct selection possibilities. The selection process assumes that the order in which the clerks are chosen does not affect the final outcome.

12. (B) 20

In statistical analysis, the standard deviation is defined as the positive square root of the variance. Given a variance of four hundred for the daily income of employees, the standard deviation is calculated by finding the square root of this value. This results in a value of twenty, which represents the typical dispersion of individual incomes around the population mean income level.

13. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Mutually exclusive events are defined as occurrences that cannot happen simultaneously. Because these events are disjoint, their intersection is an empty set with a probability of zero. Consequently, the addition theorem of probability simplifies to the sum of individual probabilities. This logical relationship confirms that the inability to overlap directly leads to the specific formula used for calculating their combined probability.

14. (D) 1000

With a mean income of eight hundred and a standard deviation of twenty, a salary of seven hundred corresponds to a Z-score of negative five. Since the probability of a Z-score being greater than negative five is essentially one, it implies that almost the entire population falls into this category. Therefore, approximately all one thousand employees earn more than this specific amount.

15. (C) P-4, Q-3, R-1, S-2

Probability events are characterized by their set-theoretic properties. A certain event encompasses all possible outcomes in the sample space. An impossible event corresponds to the empty set. Mutually exclusive events share no common outcomes, while complementary events are both mutually exclusive and exhaustive. These definitions provide the foundation for calculating the likelihood of various occurrences within a defined random experiment.

16. (D) The estimation of the part of the loan which will be lost in case a default occurs.

Loss Given Default is a critical component in credit risk modeling that quantifies the severity of loss if a borrower defaults. It represents the estimated percentage of the total exposure that a lender will not be able to recover through collateral liquidation or legal means. This metric helps financial institutions calculate the expected loss by focusing on the actual economic impact.

17. (A) I and II only

Complementary events represent the non-occurrence of a specific event within a sample

space. They are inherently mutually exclusive because they cannot happen at the same time, and they are exhaustive because their union covers the entire sample space. However, the probability of a complement is calculated by subtracting the event's probability from one, rather than adding it to one.

18. (A) P-3, Q-4, R-1, S-2

Credit risk encompasses various categories including default risk, which occurs when payments are ninety days overdue. Concentration risk involves large exposures to single groups. Sovereign risk relates to a central bank's inability or unwillingness to meet obligations. Finally, Value at Risk measures the maximum potential loss in a portfolio over a specific timeframe at a designated confidence level for financial institutions.

19. (B) II, III, and IV only

Independent events are characterized by the fact that the occurrence of one does not influence the probability of the other. Mathematically, the probability of their intersection equals the product of their individual probabilities. Furthermore, the conditional probability of an independent event remains equal to its marginal probability. These properties are fundamental for calculating the likelihood of multiple independent outcomes in probability theory.

20. (A) I only

When a borrower defaults, the lender often recovers a portion of the outstanding debt through collateral or restructuring. This recovery aspect is essential for calculating actual loss. The specific loss percentage is designated as the Loss Given Default, whereas the portion successfully recovered is represented by the complement. Consequently, the concept of recovery is central to understanding the true economic risk.

21. (D) Continuous Random Variable - Age measured in whole years

Discrete random variables take on specific, countable values, such as the number of arrivals or accidents. Continuous random variables can take any value within a range, such as percentages. While age is continuous

in nature, measuring it strictly in whole years treats it as a discrete value. This classification error highlights the difference between actual continuous measurements and rounded, discrete numerical approximations.

22. (C) 0.002

Probability of Default is frequently expressed as a percentage in financial reporting. To use this value in mathematical models or expected loss formulas, it must be converted into a decimal multiplier. Dividing the percentage value of zero point two zero by one hundred yields the correct decimal representation of zero point zero zero two. This conversion is necessary for all accurate risk calculations.

23. (A) I and II only

Discrete random variables are described by probability mass functions that assign specific probabilities to individual outcomes. In contrast, continuous random variables are described by probability density functions. Because continuous variables can take an infinite number of values within an interval, the probability of assuming any exact specific value is mathematically zero. These principles distinguish the two main types of random variables.

24. (B) Rs. 3,990

The calculation of expected loss involves multiplying the total exposure, the probability of default, and the loss given default. For a loan of three million five hundred thousand with a default probability of zero point zero zero two and a loss severity of zero point five seven, the resulting financial impact is three thousand nine hundred and ninety. This provides a risk estimate.

25. (A) I, II, III, and IV only

A probability distribution outlines all possible outcomes and their respective likelihoods. For discrete variables, the sum of probabilities must equal one, while for continuous variables, the total area under the density curve must equal one. Additionally, density functions must be non-negative. However, the cumulative distribution function is defined as the probability that a variable is less than or equal to a value.

- 26.** (B) To estimate the maximum potential loss in a portfolio at a specific confidence level.

Value at Risk is a widely used risk management tool designed to quantify the potential for financial loss within an investment portfolio. It provides an estimate of the maximum expected loss over a defined time horizon at a specific statistical confidence level. This measurement helps investors and institutions understand their exposure to market fluctuations and manage their capital reserves more effectively.

- 27.** (A) The average squared deviation of the variable from its mean.

In probability and statistics, variance measures the degree of spread or dispersion in a set of data. It is mathematically defined as the expected value of the squared deviations from the mean. By squaring the differences, variance ensures that all deviations contribute positively to the measure, reflecting the total volatility or scatter of the random variable around its average value.

- 28.** (D) I, II, III, IV, and V

Value at Risk is a comprehensive measure applied to diverse portfolios containing various asset classes. It estimates the maximum potential loss over a specific period and typically assumes that returns follow a normal distribution. By defining a confidence level, such as ninety-five or ninety-nine percent, it provides a probabilistic assessment of the worst-case loss scenario under normal market conditions.

- 29.** (A) 2, 4, 3, 1

To calculate the variance of a discrete random variable, one must first determine the expected value. Then, the difference between each outcome and this mean is found and squared. Finally, these squared values are weighted by their respective probabilities and summed. This logical sequence ensures that the resulting figure accurately represents the average squared distance from the distribution's central mean value.

- 30.** (C) In a forward contract, both parties have an obligation to meet commitments, whereas an option gives the right without obligation.

The primary distinction between these financial instruments lies in the nature of the commitment. A forward contract is a binding agreement where both parties are legally obligated to fulfill the trade at the specified price. In contrast, an option provides the holder with the right to trade but does not impose an obligation, allowing for greater flexibility in volatile market conditions.

- 31.** (A) 0.49

First, the expected value is calculated as one point nine by summing the products of values and probabilities. Next, the squared deviations from this mean are weighted by their probabilities. Summing zero point three times zero point eight one, zero point five times zero point zero one, and zero point two times one point two one results in zero point four nine.

- 32.** (D) European Option - Right to exercise only on the maturity date.

Option types are categorized by when they can be exercised. European options are restrictive, allowing exercise only on the specific maturity date of the contract. This contrasts with American options, which provide the flexibility to be exercised at any time up to and including the expiration date. Understanding these exercise rights is essential for the accurate pricing and valuation of derivatives.

- 33.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

The mode of a binomial distribution is determined by the product of the trials and success probability. When the calculated value M is an integer, the distribution is characterized as being bimodal. In such cases, the two most frequent outcomes occur at the integer M and the preceding value M minus one, accurately reflecting the peak probabilities in the distribution.

34. (C) It assumes that price moves at discrete intervals, going up by u percent or down by d percent.

The Black-Scholes model is a continuous-time framework for option pricing that assumes stock prices follow a geometric Brownian motion with normally distributed returns. The assumption that prices move at discrete upward or downward intervals is actually the basis for the binomial model, not the Black-Scholes model. Traders utilize this continuous formula to identify potential mispricing in the options market.

35. (A) Assessing the exact number of misprints found randomly across a 500-page book.

Binomial distributions are used for experiments with a fixed number of independent trials, each having only two possible outcomes, such as success or failure. Determining the number of misprints across a book involves counting rare events in a large interval, which is more accurately modeled by a Poisson distribution. The other scenarios involve clear binary outcomes suitable for binomial modeling.

36. (A) P-4, Q-3, R-2, S-1

The Black-Scholes formula utilizes several key inputs to determine the fair value of a call option. These include the current price of the underlying asset, the strike price at which the option can be exercised, and the prevailing risk-free rate of interest. Assigning these variables correctly is essential for computing the theoretical price of the derivative and assessing market value accurately.

37. (D) I, II, III, and IV

The binomial distribution is defined by its parameters, n and p . Its mean is the product of these parameters, while the variance incorporates the probability of failure. Furthermore, the shape of the distribution is described by specific mathematical expressions for skewness and kurtosis. These formulas collectively allow statisticians to analyze the center, spread, and symmetry of binomial data in various applications.

38. (A) I and II only

At maturity, an option's value is purely its intrinsic value, representing the immediate

profit if exercised. Before expiration, the price also includes time value, which reflects the potential for favorable price movements. However, as the expiration date approaches, the time value inevitably decays toward zero. This relationship highlights how the proximity to maturity significantly influences the total market price.

39. (B) $\frac{e^{-1.8} \times 1.8^0}{0!}$

To calculate the probability of zero occurrences in a Poisson distribution, the formula uses the mean parameter λ . Specifically, it involves e raised to the negative power of λ , multiplied by λ raised to the power of zero, all divided by zero factorial. Substituting the average rate of one point eight into this structure yields the probability of seeing no events.

40. (A) It offers protection against adverse price moves while preserving the potential for gain.

Options offer a unique asymmetrical risk profile that is highly attractive to buyers facing uncertainty. Unlike forward contracts, which commit both parties to a transaction, options provide protection against unfavorable price changes while allowing the buyer to participate in beneficial movements. This flexibility to walk away from a disadvantageous trade is the primary reason for choosing options despite the premium cost.

41. (B) $1 / (1.8)$

In a Poisson distribution, the shape and symmetry are determined solely by the parameter λ . The measure of skewness, which describes the asymmetry of the distribution around its mean, is mathematically defined as the reciprocal of the mean value. For a distribution with a mean of one point eight, the skewness is calculated by dividing one by the value of λ .

42. (B) The arrangement of objects in which the stipulated order of the objects is the priority.

A permutation is a mathematical concept in combinatorics that refers to the specific arrangement of a set of items. Unlike combinations, the defining characteristic of a permutation is that the order or sequence of the

objects is of paramount importance. Different orders of the same items are counted as distinct permutations, reflecting all the possible ways to sequence elements.

43. (A) P-2, Q-3, R-4, S-1

The Poisson distribution is uniquely characterized by its single parameter, lambda, which represents both the mean and the variance of the distribution. Additionally, the shape of the distribution is described by its skewness, which is the reciprocal of lambda, and its kurtosis, which is three plus the reciprocal of lambda. These relationships simplify the statistical analysis of rare, random events.

44. (C) Permutation requires a stipulated order, whereas combination involves selection where order is irrelevant.

The fundamental distinction between these two counting methods lies in the significance of sequence. A permutation is concerned with the specific order in which items are arranged, meaning that different sequences of the same elements are distinct. Conversely, a combination focuses solely on the selection of items, where the order of arrangement is completely irrelevant to the final resulting set.

45. (A) I and II only

The Poisson distribution describes discrete random variables representing event counts over intervals. Its mean and variance are always equal to the parameter lambda. While the mode is related to lambda, if lambda is an integer, the distribution is actually bimodal, having modes at lambda and lambda minus one. Therefore, the distribution characteristics depend heavily on whether the parameter is an integer.

46. (C) If events A and B are mutually exclusive events of sample space S, then $A \cap B = S$. Mutually exclusive events are defined by the fact that they cannot occur simultaneously in a single trial. This means their intersection must be an empty set, not the entire sample space. If two events are mutually exclusive, the happening of one prevents the other from occurring. The incorrect statement suggests an intersection equal to the sample space, which is logically impossible.

47. (D) A Normal variable where the mean $\mu = 0$ and variance $\sigma^2 = 1$.

A standard normal variable, commonly denoted as Z, is a special case of the normal distribution where the data has been scaled and shifted. It is defined by having a mean of exactly zero and a variance of exactly one. This standardization allows for the comparison of different normal distributions and facilitates the use of standard probability tables for statistical analysis.

48. (D) Events whose points together constitute the entire sample space.

Events are considered exhaustive if their combination covers every possible outcome within the sample space of a random experiment. This means that at least one of these events must occur during any trial. When the union of a set of events equals the entire sample space, they are said to exhaust all possibilities, providing a complete framework for calculations.

49. (B) The mean deviation of a normal distribution is 0.6745σ .

A normal distribution is bell-shaped and symmetric, where the mean, median, and mode are identical. While the total area under the curve is one, the mean deviation is not zero point six seven four five times the standard deviation; that value actually corresponds to the quartile deviation. The mean deviation is approximately zero point seven nine seven nine sigma.

50. (B) 35 ways

To determine the number of ways to select three managers from a group of seven, the combination formula is used. This calculation involves dividing seven factorial by the product of three factorial and four factorial. This simplifies to thirty-five unique ways to form the manager component of the committee. The result assumes that the specific order of selection is not relevant.

51. (D) I, II, and III

The normal distribution is a continuous probability distribution characterized by its symmetric bell shape around the mean. It is widely applicable to real-world data like human height. Half of the observations lie on each side

of the mean. The distribution is mathematically defined by its probability density function, which incorporates parameters for the average value and the degree of variance.

52. (C) 525 ways

The total number of ways to form the committee is found by multiplying the number of ways to select the managers by the number of ways to select the clerks. Since there are thirty-five ways to choose the managers and fifteen ways to choose the clerks, the multiplication of these two independent selections results in five hundred and twenty-five total combinations.

53. (A) -2

To calculate the Z-score for an income of seven hundred and sixty, the mean of eight hundred is subtracted from the value, and the result is divided by the standard deviation of twenty. This calculation yields a value of negative forty divided by twenty, resulting in a Z-score of negative two. This indicates the income is two standard deviations below the mean.

54. (C) $0 \leq P(A) \leq 1$

The probability of any event is a numerical value that represents the likelihood of its occurrence. By mathematical definition, this value is constrained between zero and one, inclusive. A probability of zero indicates that the event is impossible, while a probability of one indicates that the event is certain to happen. No event can have a negative or greater-than-one probability.

55. (B) Loss incurred when a borrower fails to repay within 90 days of the due date.

In banking and finance, credit default risk specifically refers to the possibility that a borrower will fail to meet their debt obligations according to the agreed terms. It is formally identified when a payment remains unpaid for more than ninety days beyond the scheduled due date. This risk is a primary concern for lenders and influences interest rates and capital requirements.

56. (C) Both I and II

The addition theorem provides a method for calculating the probability of the union of multiple events. For two events that are not

disjoint, the formula subtracts the intersection to avoid double-counting. For three events, the formula similarly adjusts by subtracting pairwise intersections and adding back the triple intersection. Both statements accurately reflect these essential mathematical adjustments for non-disjoint events.

57. (A) The risk of a government entity failing to meet its contractual obligations.

Sovereign risk refers to the potential that a foreign government or a state-owned entity will default on its debt obligations or fail to honor its contractual commitments. This type of risk often arises from political instability, economic downturns, or changes in government policy that affect the nation's ability or willingness to repay international lenders, impacting global financial stability.

58. (B) If events A and B are independent, the conditional probability of A given B is simply $P(A)$.

Conditional probability measures the likelihood of an event occurring given that another event has already happened. If two events are independent, the occurrence of one does not change the probability of the other. This statement identifies a relationship that is a fundamental property of independent events, where the conditional probability of event A given B is equal to the marginal probability of A.

59. (B) Expected Loss = $PD \times EAD \times LGD$

The standard formula for calculating expected loss in credit risk management is the product of three variables. These are the probability of default, the exposure at default, and the loss given default. This multiplication provides a statistical estimate of the average loss a lender can expect to incur on a loan or portfolio over a specific period.

60. (C) A random variable that takes an infinite number of possibilities.

A continuous random variable is defined as a variable that can take on an infinite number of possible values within a given range or interval. Unlike discrete variables, which have countable outcomes, continuous variables represent measurements such as time, weight, or distance.

These variables are modeled using probability density functions, where the probability of any single exact value is zero.

61. (C) Assertion (A) is true, but Reason (R) is false.

Banks calculate expected loss by multiplying the probability of default, exposure at default, and loss given default. This is a standard risk assessment practice. However, the reason provided is incorrect because expected loss is a statistical estimation of potential loss based on internal parameters, not simply a subtraction of a guaranteed amount from the total value of the loan.

62. (C) The weight of customers entering a bank branch.

Discrete random variables represent counts of items, such as customers, weeks, or misprints, which take on whole, countable numbers. In contrast, weight is a continuous variable because it can take on any value within a range and can be measured with increasing precision. Therefore, the weight of customers is classified as a continuous rather than a discrete random variable.

63. (B) 43%

The Loss Given Default represents the portion of the exposure that a lender expects to lose if a default occurs. The portion that the lender expects to get back is known as the recovery rate. Since the loss is estimated at fifty-seven percent, the implied recovery percentage is the remaining forty-three percent, as these two components must always sum to one hundred.

64. (D) The limits of $F(x)$ are $F(-\infty) = 0$ and $F(+\infty) = +1$.

The cumulative distribution function of a random variable describes the probability that the variable will take a value less than or equal to a specific point. This function is inherently non-decreasing as it accumulates probability. Mathematically, its limits are defined such that it starts at zero at negative infinity and approaches a maximum value of positive one at positive infinity.

65. (B) It measures risk in both directions, ignoring whether the move is a gain or a loss.

While volatility measures the degree of price fluctuation, its primary limitation in risk management is its symmetric nature. It treats both upward gains and downward losses as risk. For investors, the concern is primarily with the potential for loss. Value at Risk addresses this by focusing specifically on the maximum potential loss in the unfavorable direction at a certain confidence level.

66. (C) The average value expected per repetition across the distribution.

The expected value of a random variable represents the long-term average outcome if a random experiment is repeated many times. It is calculated by weighting each possible outcome by its probability and summing the results. This central tendency measure provides a single value that summarizes the entire distribution, representing what one would expect to observe on average per repetition.

67. (C) Both I and II

When calculating Value at Risk using the normal distribution assumption, specific multipliers are used to correspond to confidence levels. For a ninety-five percent confidence level, a multiplier of one point six five is applied to the standard deviation. Similarly, for a ninety-nine percent confidence level, a multiplier of two point three three is used. Both statements correctly identify these standard values.

68. (D) $V(aX + b) = a^2 V(X)$

Mathematical properties of random variables dictate how constants affect expectation and variance. The expectation of a linear transformation is linear. For variance, adding a constant does not change the spread, but multiplying the variable by a constant results in the variance being multiplied by the square of that constant. Therefore, the variance of aX plus b equals a squared times $V(X)$.

69. (A) I, II, and III only

Calculating Value at Risk at a ninety-nine percent confidence level requires several specific inputs. These include the total value or return of the portfolio, the volatility measured by the standard deviation of returns, and the

statistical multiplier of two point three three. Discrete binomial intervals are part of a different modeling approach and are not components of the standard parametric VaR calculation.

70. (B) 1.9

To find the expected value, each outcome is multiplied by its corresponding probability. One multiplied by zero point three equals zero point three. Two multiplied by zero point five equals one point zero. Three multiplied by zero point two equals zero point six. Summing these three results yields a total expected value of one point nine for this specific distribution.

71. (B) Volatility - Higher the volatility, lower the put price.

Option prices are influenced by various market factors. Higher strike prices generally lead to lower call prices. Increased stock prices and longer time to maturity typically increase the value of options. Crucially, higher volatility increases the uncertainty and potential for gain, which leads to higher prices for both call and put options. The claim that higher volatility lowers put prices is incorrect.

72. (C) 0.8

The cumulative distribution function at a value of two represents the probability that the random variable is less than or equal to two. This is calculated by summing the individual probabilities of all outcomes up to and including two. Adding the probability for one, which is zero point three, to the probability for two, which is zero point five, results in zero point eight.

73. (A) The call price must at least equal the stock price minus the present strike price.

In efficient markets, arbitrage principles dictate that a call option's price cannot fall below its lower bound. This minimum value is defined as the current stock price minus the present value of the strike price. If the option price were lower, an investor could lock in a riskless profit. This relationship ensures that the option's market value reflects its inherent potential.

74. (B) The distribution is symmetric when the probability of success equals 0.5.

The shape of a binomial distribution is determined by the probability of success. It is perfectly symmetric only when the probability of success and the probability of failure are equal, meaning both are zero point five. If the probability of success deviates from this value, the distribution becomes skewed, regardless of the number of trials conducted in the experiment.

75. (A) Asset prices move continuously following a standard normal distribution.

The binomial option pricing model is built on the assumption that stock prices move at discrete intervals in specific upward or downward steps. In contrast, the assumption that asset prices move continuously following a standard normal distribution is the cornerstone of the Black-Scholes model. Therefore, continuous movement is not an assumption utilized within the discrete framework of the binomial model.

76. (A) I only

The mode of a binomial distribution represents the most probable number of successes. When the value M , calculated as trials plus one times success probability, is not an integer, the distribution has a single mode. This mode is the largest integer that is less than M . This rule allows for the precise identification of the most likely outcome in a binomial experiment.

77. (A) 3, 2, 4, 1

Constructing the binomial option pricing model begins with the assumption that prices move at discrete intervals. Next, it is established that during each interval, the price can move up or down by specific percentages. This leads to the definition of the new price as a multiple of the previous price. Finally, the probabilities for these upward and downward movements are assigned.

78. (C) Assertion (A) is true, but Reason (R) is false.

A binomial distribution is negatively skewed when the probability of success is greater than zero point five, as the distribution's tail extends toward the lower values. While the assertion regarding skewness is correct, the reason is

flawed because the measure of skewness is determined by the difference between success and failure probabilities, rather than the variance.

79. (D) I, II, III, IV, and V

The put-call parity theorem establishes a fundamental relationship between the prices of European call and put options with the same strike price and expiration. To determine the price of a put option, the model requires the call price, the current stock price, the strike price, and the time remaining until expiration. All these variables are essential components of the formula.

80. (B) 1.8

A unique and fundamental property of the Poisson distribution is that its variance is mathematically equal to its mean. In this scenario, the average rate of births is given as one point eight per hour, which represents the parameter λ . Consequently, the variance of the number of births in any given hour is also exactly one point eight.

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CHAPTER 07

Estimation

May/June 2016

1. If the analyst opts to use Estimator B to create a confidence interval capturing exactly 95.5 per cent of all sample means, how many standard errors ($\pm$) around the sample mean must be applied?
- (A) 1.00 standard error
 - (B) 1.64 standard errors
 - (C) 1.96 standard errors
 - (D) 2.00 standard errors

Oct/Nov 2009

2. Which of the following pairs of a calculation method and its purpose is incorrect?
- (A) Multiplying standard error by 1.96 — Determining limits for 95% confidence intervals.
 - (B) Multiplying standard error by 2.58 — Determining limits for 99% confidence intervals.
 - (C) Dividing sum of squared deviations by n — Achieving an unbiased population estimate.
 - (D) Taking square root of sample variance — Finding the specific sample standard deviation.

May/June 2023

3. Which of the following describes an interval estimate?
- (A) A range of values used to estimate a population parameter alongside a specific confidence level.
 - (B) A single numerical value computed from sample data to provide a point estimate of a parameter.
 - (C) A specific standard deviation value derived from parameters to define the population variance.
 - (D) A continuous distribution of discrete variables representing the overall population efficiency.

Oct/Nov 2018

4. Consider the following statements:

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- I. A point estimate is often insufficient because you cannot be certain of its reliability without an estimate of the error involved.
 - II. An interval estimate specifies only the lower limit of a population parameter.
- Which of the above statement(s) is/are correct?
- (A) Only I
 - (B) Only II
 - (C) Both I and II
 - (D) Neither I nor II

May/June 2007

5. How is the confidence level defined in interval estimation?
- (A) The specific upper and lower limits defining the interval estimate for a population parameter.
 - (B) The numerical difference between the observed sample mean and the theoretical population mean.
 - (C) The measure of standard error derived from an unbiased estimator within the sampling distribution.
 - (D) The probability that the interval estimate contains the true value of the population parameter.

Oct/Nov 2025

6. Consider the following statements regarding the finite population multiplier:

- I. It is mathematically represented as

$$\sqrt{\frac{N-n}{N-1}}.$$

- II. It is used exclusively when the sample size is less than 1 per cent of the population.

Which of the above statement(s) is/are correct?

- (A) Only I
- (B) Only II
- (C) Both I and II
- (D) Neither I nor II

May/June 2012

7. When converting a sample variance into an unbiased estimator of the population variance, what denominator is used?

(A) n
 (B) $n - 1$
 (C) $n + 1$
 (D) $N - n$

Oct/Nov 2014

8. Consider the following statements regarding the properties of a good estimator:

- I. A consistent estimator wastes time and money by taking larger samples.
 II. A sufficient estimator makes so much use of sample information that no other estimator could extract additional info.
 III. An efficient estimator has a smaller standard error compared to an inefficient one.

Which of the above statement(s) is/are correct?

(A) I and II only
 (B) II and III only
 (C) I and III only
 (D) I, II, and III

May/June 2019

9. What does the symbol $\hat{\sigma}$ represent?

- (A) An estimate of the population standard deviation, commonly called sigma hat.
 (B) The standard error of the mean calculated from the specific sample distribution.
 (C) The true population standard deviation derived from a census of all available units.
 (D) The sample variance computed without an unbiased correction for degrees of freedom.

Oct/Nov 2006

10. Consider the following statements regarding point estimates:

- I. The sample mean $\bar{x}$ is the best estimator of the population mean μ .
 II. The sample proportion $\bar{p}$ is an unbiased, consistent, efficient, and sufficient estimator of the population proportion.
 III. The sample variance formula using $n - 1$ produces some bias as an estimator.

Which of the above statement(s) is/are correct?

(A) I and II only
 (B) II and III only

(C) I and III only
 (D) I, II, and III

May/June 2021

11. When a statistic becomes almost certain to yield a value very close to the population parameter as the sample size increases, which criterion does it fulfill?

(A) Consistency
 (B) Unbiasedness
 (C) Efficiency
 (D) Sufficiency

Oct/Nov 2010

12. Consider the following statements concerning the criteria of a good estimator:

- I. Unbiasedness means the average of the sample means equals the population mean.
 II. Efficiency indicates that the estimator has the largest possible standard error.
 III. Consistency means the statistic comes very close to the population parameter as sample size increases.
 IV. Sufficiency ensures no other estimator could extract additional information from the sample.

Which of the above statement(s) is/are correct?

(A) I, II, and III only
 (B) I, III, and IV only
 (C) II, III, and IV only
 (D) I, II, III, and IV

May/June 2005

13. Why are extremely high confidence levels, such as 99.9 per cent, often avoided in practical estimation problems?

- (A) They require the use of point estimators which are known to be statistically biased.
 (B) They produce large confidence intervals that result in very fuzzy and imprecise estimates.
 (C) They shrink the confidence interval to zero, making the estimation process meaningless.
 (D) They cannot be calculated unless the true population variance is already known exactly.

Oct/Nov 2022

14. Consider the following statements regarding standard errors:

- I. The standard error of the mean for an infinite population is calculated as $\frac{\sigma}{\sqrt{n}}$.
- II. The standard error decreases as the sample size n increases.
- III. If the standard deviation of the population is unknown, the sample standard deviation cannot be used to estimate it.
- IV. The standard error of the proportion relies on the binomial approximation.

Which of the above statement(s) is/are correct?

- (A) I, II, and IV only
- (B) I, III, and IV only
- (C) II, III, and IV only
- (D) I, II, III, and IV

May/June 2018

15. Which statement correctly identifies the standard error of the mean for an infinite population?

- (A) It is calculated by dividing the population variance by the sample size minus one.
- (B) It is computed by multiplying the population standard deviation by the total sample size.
- (C) It represents the precise distance between the upper and lower confidence limits defined.
- (D) It is the population standard deviation divided by the square root of the sample size.

Oct/Nov 2016

16. Consider the following statements regarding variance and standard deviation estimation:

- I. The sample variance divided by n produces an unbiased estimator.
- II. The sample variance formula with $n - 1$ in the denominator is unbiased.
- III. The sample standard deviation is derived by taking the square root of the sample variance.
- IV. $\hat{\sigma}$ (sigma hat) signifies an estimate of the population standard deviation.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, and IV only

17. Which statement properly addresses the relationship between the sample proportion and the population proportion?

- (A) The sample proportion is a biased estimator when used to predict the population proportion.
- (B) The sample proportion is an unbiased, consistent, efficient, and sufficient estimator.
- (C) The sample proportion cannot be used without first knowing the finite population multiplier.
- (D) The sample proportion replaces the normal distribution variance without any size adjustments.

May/June 2014

18. Consider the following statements regarding the calculation of interval estimates when standard deviation is unknown:

- I. The sample standard deviation s substitutes for σ .
- II. The standard error of the mean is calculated using $s/\sqrt{n}$ for infinite populations.
- III. If the sample is more than 5 per cent of the finite population, the finite multiplier is used.

IV. The formula for the multiplier is $\sqrt{\frac{N-n}{N-1}}$

V. The finite multiplier increases the size of the standard error.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV only
- (B) I, II, IV, and V only
- (C) II, III, IV, and V only
- (D) I, III, IV, and V only

May/June 2025

19. Which statement is incorrect regarding confidence intervals?

- (A) A confidence interval is always expressed in standard errors and never in numerical values.
- (B) The confidence interval is the range of the estimate being made.
- (C) Confidence limits are the upper and lower boundaries of the confidence interval.
- (D) There is a direct relationship between the confidence level and the confidence interval.

Oct/Nov 2019

20. Consider the following statements concerning confidence limits and sample sizes:
- Tighter confidence intervals correlate with lower confidence levels, assuming sample size is constant.
 - A 99 per cent confidence level uses 2.58 standard errors.
 - The larger the sample size, the greater the standard error.
 - A consistent estimator becomes more reliable as sample size increases.
 - Point estimators provide a single numerical value.
- Which of the above statement(s) is/are correct?
- I, II, IV, and V only
 - I, II, III, and IV only
 - II, III, IV, and V only
 - I, III, IV, and V only

May/June 2009

21. Which statement is incorrect regarding the standard error of the proportion?
- It is calculated using the formula $\sqrt{\frac{p \times q}{n}}$
 - The mean of the binomial distribution is equal to the product of the number of trials and the probability of success.
 - When sample statistics are used to estimate the standard error of the proportion, $\bar{p}$ and $\bar{q}$ substitute p and q .
 - The binomial distribution represents continuous variables rather than discrete variables.

Oct/Nov 2011

22. Each of the following questions consists of two statements, an Assertion (A) and a Reason (R). Select the correct answer using the codes provided below.
- Assertion (A): The sample mean is considered an unbiased estimator of the population mean.
- Reason (R): The mean of the sampling distribution of sample means taken from the same population is equal to the population mean itself.
- Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct

explanation of Assertion (A).

- Assertion (A) is true, but Reason (R) is false.
- Assertion (A) is false, but Reason (R) is true.

May/June 2010

23. All of the following standard errors correspond to specific probability percentages of the true population parameter falling within the interval, EXCEPT:
- ± 1 standard error includes about 68.3 per cent of the sample means.
 - ± 1.64 standard errors include about 90 per cent of the area under the curve.
 - ± 1.96 standard errors include about 95 per cent of the area under the curve.
 - ± 2.25 standard errors include exactly 98 per cent of the area under the curve.

Oct/Nov 2024

24. Each of the following questions consists of two statements, an Assertion (A) and a Reason (R). Select the correct answer using the codes provided below.
- Assertion (A): A very high confidence level, such as 99.9 per cent, is always the best choice in managerial decision-making.
- Reason (R): High confidence levels produce large confidence intervals, which often yield very fuzzy and imprecise estimates.
- Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - Assertion (A) is true, but Reason (R) is false.
 - Assertion (A) is false, but Reason (R) is true.

May/June 2017

25. The finite population correction factor $\sqrt{(N-n)/(N-1)}$ requires all of the following conditions for its correct application, EXCEPT:
- The population standard deviation must be precisely zero.
 - The population size must be finite.
 - The sample must be more than 5 per cent of the population.

- (D) The estimator involves standard error of the mean of finite populations.

Oct/Nov 2005

- 26.** Each of the following questions consists of two statements, an Assertion (A) and a Reason (R). Select the correct answer using the codes provided below.

Assertion (A): The binomial distribution can be approximated by a normal distribution when constructing confidence intervals for a population proportion from large samples.

Reason (R): The computation of exact binomial probabilities is complex and tedious, and the normal distribution serves as an adequate substitute when both np and nq are at least 5.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 (C) Assertion (A) is true, but Reason (R) is false.
 (D) Assertion (A) is false, but Reason (R) is true.

May/June 2020

- 27.** What is the most appropriate reason an interval estimate is often preferred over a point estimate?
 (A) It indicates the error by providing a range and the probability of the parameter lying within it.
 (B) It requires significantly less computational effort than calculating a single point estimate.
 (C) It uses smaller sample sizes to achieve the identical accuracy found in a census distribution.
 (D) It inherently corrects biased estimators without the need for additional statistical formulas.

Oct/Nov 2015

- 28.** What is the lower limit of the 95 per cent confidence interval for the population mean?
 (A) Rs. 4,742.00
 (B) Rs. 4,804.00
 (C) Rs. 4,836.00
 (D) Rs. 4,900.00

May/June 2013

- 29.** Which is the most accurate interpretation of a 90 per cent confidence interval calculated from a sample?
 (A) We are 90 per cent confident that the sample mean equals the population mean exactly.
 (B) In 90 per cent of all samples of this size, the interval will contain the population mean.
 (C) There is a 90 per cent probability that the population size is greater than thirty units.
 (D) The sample variance has a 90 per cent chance of being classified as perfectly efficient.

Oct/Nov 2021

- 30.** Before applying the finite population multiplier, what is the preliminary estimated standard error of the mean?
 (A) 30 points
 (B) 150 points
 (C) 300 points
 (D) 3,000 points

May/June 2024

- 31.** Which element serves as the primary determinant for locating the upper and lower limits of a confidence interval around the sample mean?
 (A) The finite population multiplier divided by the sample standard deviation value.
 (B) The sample median added to the population variance to find the upper limit range.
 (C) The absolute difference between success and failure rates within the population.
 (D) The standard error multiplied by a specific Z-value derived from confidence levels.

Oct/Nov 2008

- 32.** If the finite population multiplier equates to approximately 0.949, what is the final standard error of the mean (rounded to one decimal place)?
 (A) 284.7
 (B) 290.5
 (C) 300.0
 (D) 316.1

May/June 2006

- 33.** Arrange the following steps in the correct sequence to calculate the unbiased sample variance:
- Divide the sum by $n - 1$.
 - Calculate the difference between each observation and the sample mean.
 - Find the sample mean ($\bar{x}$).
 - Square each difference and sum the squared values.
- (A) III, II, IV, I
 (B) II, IV, I, III
 (C) III, IV, II, I
 (D) IV, II, III, I

Oct/Nov 2017

- 34.** What is the estimated standard error of the proportion ($\sigma_{\bar{p}}$) calculated from the sample?
- (A) 0.0152
 (B) 0.0229
 (C) 0.0316
 (D) 0.0458

May/June 2008

- 35.** Match the confidence levels in List I with their corresponding standard error multipliers in List II for a normal distribution.

List I: Confidence levels

- P. 68.3 per cent
 Q. 90.0 per cent
 R. 95.0 per cent
 S. 99.0 per cent

List II: Standard error multipliers

- ± 1.64
 - ± 1.96
 - ± 2.58
 - ± 1.00
- (A) P-4, Q-1, R-2, S-3
 (B) P-1, Q-4, R-3, S-2
 (C) P-4, Q-2, R-1, S-3
 (D) P-2, Q-3, R-4, S-1

Oct/Nov 2013

- 36.** What is the sample mean ($\bar{x}$) of the processing times?
- (A) 5 hours
 (B) 6 hours
 (C) 7 hours
 (D) 8 hours

May/June 2015

- 37.** Match the specific statistical terms in List I with their descriptions in List II.

List I: Statistical terms

- P. Estimate
 Q. Estimator
 R. Confidence Level
 S. Upper Confidence Limit

List II: Descriptions

- The probability associated with an interval estimate.
 - A sample statistic used to estimate a population parameter.
 - The specific numerical value of a statistic.
 - The maximum boundary value of a confidence interval.
- (A) P-2, Q-3, R-1, S-4
 (B) P-3, Q-2, R-4, S-1
 (C) P-4, Q-1, R-2, S-3
 (D) P-3, Q-2, R-1, S-4

Oct/Nov 2012

- 38.** What is the unbiased point estimate of the population variance (s^2)?
- (A) 2.0
 (B) 2.5
 (C) 3.0
 (D) 10.0

May/June 2011

- 39.** Which of the following pairs correctly matches the confidence level with its corresponding percentage of the area under the curve on either side of the mean?
- (A) 95 per cent confidence level — 45.0 per cent area on either side of the mean.
 (B) 95 per cent confidence level — 47.5 per cent area on either side of the mean.
 (C) 90 per cent confidence level — 49.5 per cent area on either side of the mean.
 (D) 99 per cent confidence level — 47.5 per cent area on either side of the mean.

Oct/Nov 2020

- 40.** Which estimator is considered more efficient and why?
- (A) Estimator B, as it has a smaller standard error in its sampling distribution.
 (B) Estimator A, as it has a larger standard error that captures more sample data.
 (C) Estimator A, because it requires significantly less computational processing power.
 (D) Estimator B, because it guarantees absolute certainty of the population

parameter.

May/June 2022

41. Which of the following pairs of symbols and their meanings is strictly incorrect based on estimation formulas?
- (A) s^2 — Biased sample variance.
 - (B) p — Probability of success in a binomial distribution.
 - (C) q — Probability of failure ($1 - p$).
 - (D) σ_p — Standard error of the population proportion.

Oct/Nov 2023

42. Which of the following defines a point estimate?
- (A) A range of values used to predict an unknown population parameter, accompanied by a probability.
 - (B) A single number used to estimate an unknown population parameter.
 - (C) A specific characteristic of a sample that defines the bounds of population variance.
 - (D) A probability measure that indicates the certainty of an inferential statistic.

May/June 2016

43. Consider the following statements:
- I. An estimator is unbiased if, on average, it tends to assume values above the population parameter as frequently and to the same extent as it assumes values below it.
 - II. Efficiency refers to the size of the standard error of the statistic.
- Which of the above statement(s) is/are correct?
- (A) Only I
 - (B) Only II
 - (C) Both I and II
 - (D) Neither I nor II

Oct/Nov 2009

44. What is an estimator in the context of inferential statistics?
- (A) A population parameter that determines the overall standard error.
 - (B) A specific numerical value observed from sample data.
 - (C) A sample statistic that is used to estimate a population parameter.
 - (D) A probability level representing the

accuracy of the sampling distribution.

May/June 2023

45. Consider the following statements regarding the estimation of proportions:
- I. The binomial distribution is a distribution of continuous variables.
 - II. In estimating proportions, substituting the normal distribution for the binomial requires n to be large enough for both $n \times p$ and $n \times q$ to be at least 5.
- Which of the above statement(s) is/are correct?
- (A) Only I
 - (B) Only II
 - (C) Both I and II
 - (D) Neither I nor II

Oct/Nov 2018

46. In a normal distribution, what percentage of all sample means are within ± 2 times the standard error from the population mean?
- (A) 68.3 per cent
 - (B) 90.0 per cent
 - (C) 95.5 per cent
 - (D) 99.7 per cent

May/June 2007

47. Consider the following statements regarding the Central Limit Theorem and sampling distribution:
- I. The mean of sample means will be the same as the population mean.
 - II. A sample size of 30 or greater is large enough to apply the central limit theorem.
 - III. The theorem assumes that standard error increases proportionally with sample size.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

Oct/Nov 2025

48. When using the normal distribution to approximate a binomial distribution in estimation, what is the minimum value required for both $n \times p$ and $n \times q$?
- (A) 5
 - (B) 10
 - (C) 30

(D) 50

May/June 2012

49. Consider the following statements regarding the calculation of confidence intervals:
- The confidence interval is the range of the estimate being made.
 - A 95 per cent confidence level uses ± 1.64 standard errors.
 - Confidence limits are the upper and lower limits of the confidence interval.
- Which of the above statement(s) is/are correct?
- I and II only
 - I and III only
 - II and III only
 - I, II, and III

Oct/Nov 2014

50. What makes an estimator more efficient than another estimator?
- It possesses a significantly larger sample size than other potential estimators.
 - It incorporates the finite population multiplier to adjust for small populations.
 - It has a smaller standard error or standard deviation in its sampling distribution.
 - It utilizes a comprehensive interval estimate rather than a specific point estimate.

May/June 2019

51. Consider the following statements regarding proportion estimation:
- The true population parameters p and q can be estimated by corresponding sample statistics $\bar{p}$ and $\bar{q}$.
 - The standard error of the population proportion is given by $\sqrt{\frac{p \times q}{n}}$
 - The mean of the binomial distribution is equal to the sample mean $\bar{x}$.
- Which of the above statement(s) is/are correct?
- I and II only
 - II and III only
 - I and III only
 - I, II, and III

Oct/Nov 2006

52. What defines an estimator as having the property of sufficiency?

- It produces a single point estimate rather than a range of probable values.
- It divides total probability into equal halves on either side of the mean.
- Its sampling distribution mean is perfectly equal to the true population mean.
- It utilizes all sample information such that no other estimator can extract more.

May/June 2021

53. Consider the following statements about confidence levels and normal curves:
- 95.5 per cent of all sample means are within ± 2 standard errors from the population mean.
 - 68.3 per cent of the area falls within ± 1 standard error.
 - 99 per cent confidence limits are found by applying ± 2.58 standard errors.
 - 90 per cent confidence limits use ± 1.96 standard errors.
- Which of the above statement(s) is/are correct?
- I, II, and III only
 - II, III, and IV only
 - I, III, and IV only
 - I, II, III, and IV

Oct/Nov 2010

54. Which statement accurately describes an unbiased estimator?
- The standard error of the sampling distribution is minimized compared to other statistics.
 - The estimator extracts all available information from the sample, leaving no residual data.
 - The mean of its sampling distribution is exactly equal to the population parameter estimated.
 - The value of the estimator improves directly proportionally as the population size decreases.

May/June 2005

55. Consider the following statements regarding the estimation of the population mean from a large sample:
- A sample size over 30 permits the use of the normal distribution.
 - If population standard deviation is 6 and sample size is 100, the standard error is

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0.6.

III. The upper confidence limit is calculated by subtracting the margin of error from the mean.

IV. The area under the normal curve between the mean and 1.96 standard errors to the right is 0.475.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) I, II, and IV only
- (C) II, III, and IV only
- (D) I, II, III, and IV

Oct/Nov 2022

56. Which statement accurately reflects the condition for using the finite population correction factor?

- (A) It is used when the sample size exceeds five per cent of a finite population size.
- (B) It is used when the sample size is significantly less than thirty total observations.
- (C) It is used when the population standard deviation is assumed to be infinite in nature.
- (D) It is used when estimating specific proportions derived from a binomial distribution.

May/June 2018

57. Consider the following statements regarding the principles of estimation:

- I. Inferential statistics use a random sample to describe and make inferences about the population.
- II. An interval estimate indicates error through its range and probability.
- III. A high confidence level always results in a highly precise and narrow interval estimate.
- IV. The standard error of the mean for finite populations includes a specific adjustment multiplier.
- V. The mean of the sampling distribution of sample proportions equals the population proportion.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV only
- (B) I, II, IV, and V only

(C) II, III, IV, and V only

(D) I, III, IV, and V only

Oct/Nov 2016

58. Which statement is incorrect regarding the use of the Central Limit Theorem in estimation?

- (A) It allows the sampling distribution to be approximated by the normal distribution.
- (B) It proves that the population mean will perfectly match the standard error for any sample size.
- (C) It requires the sample size to be greater than 30 for the normal distribution approximation.
- (D) It is applicable even if the underlying population distribution is not normal.

May/June 2014

59. Consider the following statements regarding proportion estimation:

- I. The binomial distribution is appropriate for proportions.
- II. The normal distribution can approximate the binomial when np and nq are at least 5.
- III. The standard error of the proportion is $\sqrt{\frac{p \times q}{n}}$.
- IV. $\bar{p}$ and $\bar{q}$ denote population parameters.
- V. The value of q is defined as $1 - p$.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and V only
- (B) I, II, IV, and V only
- (C) II, III, IV, and V only
- (D) I, III, IV, and V only

Oct/Nov 2007

60. Which statement is incorrect regarding the estimation of the population standard deviation?

- (A) The most frequently used estimator of the population standard deviation is the sample standard deviation.
- (B) The value $\hat{\sigma}$ is called sigma hat and serves as an estimate of the standard deviation of the population.
- (C) Using dividing by n to calculate sample variance produces an unbiased estimator of the population variance.
- (D) When the population standard deviation is unknown, the sample standard deviation

can be used as its estimator.

May/June 2025

61. Consider the following statements regarding estimates and estimators:
- I. An estimate is a specific numerical value of a statistic.
 - II. The sample mean is generally biased if n is greater than 30.
 - III. Efficiency is determined by comparing standard errors of statistics.
 - IV. Interval estimates incorporate probability into their range.
 - V. An estimator is sufficient if it fully utilizes the sample information.
- Which of the above statement(s) is/are correct?
- (A) I, II, III, and IV only
 - (B) I, III, IV, and V only
 - (C) II, III, IV, and V only
 - (D) I, II, IV, and V only

Oct/Nov 2019

62. All of the following are recognized criteria for evaluating the quality of a statistic as an estimator, EXCEPT:
- (A) Unbiasedness
 - (B) Efficiency
 - (C) Probability
 - (D) Consistency

May/June 2009

63. Each of the following questions consists of two statements, an Assertion (A) and a Reason (R). Select the correct answer using the codes provided below.
- Assertion (A): The formula for sample variance uses the denominator $n - 1$ instead of n .
- Reason (R): Using n in the denominator introduces bias, whereas $n - 1$ creates an unbiased estimator of the population variance.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2011

64. A point estimator possesses all of the following attributes for estimating the population mean, EXCEPT:
- (A) It is unbiased.
 - (B) It is a single value of a statistic.
 - (C) It is an efficient estimator.
 - (D) It inherently accounts for the margin of uncertainty or error.

May/June 2010

65. Each of the following questions consists of two statements, an Assertion (A) and a Reason (R). Select the correct answer using the codes provided below.
- Assertion (A): The finite population correction factor is applied when calculating the standard error of the mean for a finite population.
- Reason (R): The multiplier $\sqrt{(N - n) / (N - 1)}$ increases the calculated standard error to account for population boundaries.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

66. All of the following are properties of the normal approximation to the binomial distribution for estimating proportions, EXCEPT:
- (A) The mean number of successes is $n \times p$.
 - (B) The computation of binomial probabilities for large sample sizes is complex and tedious.
 - (C) The formula for the standard error of the population proportion omits the sample size n .
 - (D) n should be large enough so that both $n \times p$ and $n \times q$ are at least 5.

May/June 2017

67. Read the following scenario and answer the questions that follow:
- A mutual fund company wants to estimate the average monthly investment made by its retail investors. The management selects a*

random sample of 144 accounts. The sample mean calculated is Rs. 5,000. Historically, the management knows that the population standard deviation of investments is Rs. 1,200. Based on the scenario, what is the standard error of the mean?

- (A) Rs. 8.33
- (B) Rs. 100.00
- (C) Rs. 120.00
- (D) Rs. 1,200.00

Oct/Nov 2005

68. When deciding between two different unbiased statistics from a sample of the same size, what is the best approach to choose the superior estimator?

- (A) Pick the statistic with the larger standard error to capture more variance.
- (B) Pick the statistic that operates independently of the central limit theorem.
- (C) Pick the statistic that relies solely on discrete binomial variables.
- (D) Pick the statistic with the smaller standard error or standard deviation.

May/June 2020

69. Read the following scenario and answer the questions that follow:

A mutual fund company wants to estimate the average monthly investment made by its retail investors. The management selects a random sample of 144 accounts. The sample mean calculated is Rs. 5,000. Historically, the management knows that the population standard deviation of investments is Rs. 1,200.

If the company wishes to calculate the upper limit of the 90 per cent confidence interval, what will the value be?

- (A) Rs. 5,164.00
- (B) Rs. 5,196.00
- (C) Rs. 5,258.00
- (D) Rs. 5,300.00

Oct/Nov 2015

70. What is the most appropriate mathematical justification for dividing the sum of squared deviations by $n - 1$ instead of n when calculating the sample variance?

- (A) It increases the standard error to provide a wider confidence interval.
- (B) It converts the variance directly into a standard deviation.

- (C) It ensures the resulting statistic is an unbiased estimator of the population variance.
- (D) It aligns the statistic with the required parameters of a binomial distribution.

May/June 2013

71. Read the following scenario and answer the questions that follow:

A regional bank issues credit cards to a finite population of exactly 1,000 premium customers. To estimate the average annual reward points redeemed, a random sample of 100 customers is taken. The sample mean is 15,000 points. The sample standard deviation is computed as 3,000 points.

What is the formula representation for the finite population multiplier in this specific scenario?

- (A) $\sqrt{\frac{1000 - 100}{1000}}$
- (B) $\sqrt{\frac{1000 - 100}{1000 - 1}}$
- (C) $\sqrt{\frac{1000 - 1}{1000 - 100}}$
- (D) $\sqrt{\frac{100 - 1}{1000 - 1}}$

Oct/Nov 2021

72. Arrange the following steps in the correct chronological order to construct an interval estimate of the mean from a large sample with an unknown population standard deviation:

- I. Calculate the standard error of the mean using the estimated standard deviation.
- II. Estimate the population standard deviation using the sample standard deviation (s).
- III. Calculate the sample mean ($\bar{x}$).
- IV. Determine the upper and lower confidence limits by applying the standard error multiplier based on the confidence level.

- (A) I, II, III, IV
- (B) III, II, I, IV
- (C) II, I, III, IV
- (D) III, I, II, IV

May/June 2024

73. Read the following scenario and answer the questions that follow:

A digital payment firm wants to estimate the proportion of its total user base that actively

STUDYING FROM PDFs?

THINK AGAIN.

If you are studying only from PDFs,
you are wasting valuable time.

Research shows that learning from
PRINTED BOOKS has up to
4× HIGHER RETENTION
than studying from screens.



PRINT BOOK = BETTER MEMORY



PDF = LOWER RETENTION

Those who study from **PRINTED BOOKS**
move **AHEAD.**

Others are left **BEHIND**
in competition.



In competitive exams,
being average is not enough.

STAY ONE STEP AHEAD.

utilizes its newly launched split-bill feature. Out of a simple random sample of 400 users, 120 are found to be actively using the feature. Management requests a 99 per cent confidence interval for the true population proportion.

What is the point estimate of the proportion ($\bar{p}$) of users utilizing the feature?

- (A) 0.12
- (B) 0.30
- (C) 0.40
- (D) 0.70

Oct/Nov 2008

74. Match the criteria of a good estimator in List I with their corresponding definitions in List II.
List I: Criteria of a good estimator

- P. Unbiased
- Q. Efficient
- R. Consistent
- S. Sufficient

List II: Definitions

1. Makes so much use of sample information that no other estimator can extract more.
2. The mean of the sampling distribution equals the population parameter.
3. Has the smallest standard error among estimators of the same sample size.
4. Approaches the value of the population parameter almost certainly as sample size increases.

- (A) P-3, Q-2, R-1, S-4
- (B) P-2, Q-3, R-4, S-1
- (C) P-2, Q-4, R-3, S-1
- (D) P-4, Q-3, R-2, S-1

May/June 2006

75. Read the following scenario and answer the questions that follow:

A digital payment firm wants to estimate the proportion of its total user base that actively utilizes its newly launched split-bill feature. Out of a simple random sample of 400 users, 120 are found to be actively using the feature. Management requests a 99 per cent confidence interval for the true population proportion.

Assuming the standard error is 0.0229, what is the upper limit of the 99 per cent confidence interval?

- (A) 0.3375
- (B) 0.3448
- (C) 0.3590

(D) 0.3688

Oct/Nov 2017

76. Match the statistical symbols in List I with their correct meanings in List II.

List I: Statistical symbols

- P. μ
- Q. $\sigma_{\bar{x}}$
- R. $\hat{\sigma}$
- S. $\bar{p}$

List II: Meanings

1. Estimated standard deviation of the population (σ hat).
2. Sample proportion.
3. Population mean.
4. Standard error of the mean for an infinite population.

- (A) P-3, Q-1, R-4, S-2
- (B) P-4, Q-3, R-2, S-1
- (C) P-3, Q-4, R-1, S-2
- (D) P-2, Q-4, R-1, S-3

May/June 2008

77. Read the following scenario and answer the questions that follow:

A loan processing manager wishes to evaluate the variance of the time taken to disburse consumer loans. A sample of 5 loan applications yields processing times (in hours) of 4, 6, 5, 7, and 8. The manager needs to find the point estimator of the population variance.

What is the sum of the squared deviations from the sample mean ($\sum (x - \bar{x})^2$)?

- (A) 6
- (B) 8
- (C) 10
- (D) 12

Oct/Nov 2013

78. Match the standard error formulas in List I with their respective use cases in List II.

List I: Standard error formulas

- P. $\frac{\sigma}{\sqrt{n}}$
- Q. $\sqrt{\frac{p \times q}{n}}$
- R. $\sqrt{\frac{\bar{p} \times \bar{q}}{n}}$
- S. $(\frac{\hat{\sigma}}{\sqrt{n}}) \times \sqrt{\frac{N-n}{N-1}}$

List II: Use cases

1. Estimated standard error of the proportion.

2. Standard error of the mean for a finite population using an estimate of standard deviation.
 3. Standard error of the mean for an infinite population.
 4. True standard error of the population proportion.
- (A) P-3, Q-1, R-4, S-2
 (B) P-2, Q-4, R-1, S-3
 (C) P-3, Q-4, R-1, S-2
 (D) P-4, Q-3, R-2, S-1

May/June 2015

79. Read the following scenario and answer the questions that follow:

A banking analytics department is testing two separate statistical models (Estimator A and Estimator B) to forecast daily branch footfalls. Both estimators are determined to be unbiased. However, when drawn from a sample of 200 days, Estimator A has a calculated standard error of 1.4, while Estimator B has a calculated standard error of 0.9.

Based on the rules of estimation, what defines both Estimator A and Estimator B as being unbiased?

- (A) Their standard errors decrease consistently as the total sample size increases.
 (B) They both utilize the finite population multiplier for specific small groups.
 (C) They are calculated using $n-1$ in their denominators to ensure point accuracy.
 (D) The mean of their sampling distributions equals the actual population mean.

Oct/Nov 2012

80. Which of the following pairs correctly matches the concept of estimation with its defining characteristic?
- (A) Central Limit Theorem — Applies only when sample size is exactly ten units.
 (B) Point Estimate — Represents an exact range of probabilities for the mean.
 (C) Infinite Population — Utilizes the finite multiplier adjustment factor.
 (D) Consistency — Estimator becomes more reliable as the sample size increases.

ANSWERS

1. (D) 2.00 standard errors
In a normal distribution, approximately 95.5 per cent of the area lies within two standard deviations of the mean. When constructing a confidence interval for the population mean using a normal sampling distribution, applying two standard errors above and below the sample mean captures this specific percentage. This multiplier is derived from standard tables used for determining normal curves.
2. (C) Dividing sum of squared deviations by $n - 1$ — Achieving an unbiased population estimate.
Dividing the sum of squared deviations by the sample size results in a biased estimator for the population variance. To achieve an unbiased estimate, statisticians use the degrees of freedom, which is the sample size minus one. This correction factor accounts for the underestimation that occurs when using sample data to approximate the variability within the entire population parameter.
3. (A) A range of values used to estimate a population parameter alongside a specific confidence level.
An interval estimate provides a range of values within which a population parameter is expected to fall. Unlike a point estimate, it incorporates a specific confidence level to indicate the probability of the true value being contained. This approach offers a measure of the precision and reliability of the statistical inference made from observations within a specific sample data.
4. (A) Only I
Point estimates provide a single numerical value but lack information regarding their own reliability or the extent of potential error. Consequently, they are often considered insufficient for comprehensive decision-making. Conversely, interval estimates specify both lower and upper limits, rather than just a lower limit, to define a range that likely contains the true population parameter being studied by the researcher.
5. (D) The probability that the interval estimate contains the true value of the population parameter.
The confidence level represents the probability that a calculated interval estimate will successfully contain the true population parameter. It indicates the long-term success rate of the estimation process over repeated sampling. Common levels like ninety-five per cent suggest that ninety-five out of one hundred similarly constructed intervals would include the actual value of the population mean or proportion.
6. (A) Only I
The finite population multiplier is mathematically expressed as the square root of the population size minus the sample size, divided by the population size minus one. It is specifically applied when the sample size exceeds five per cent of the total population. This adjustment factor reduces the standard error when sampling from smaller, finite groups without any replacement during trials.
7. (B) $n - 1$
To transform sample variance into an unbiased estimator of the population variance, the sum of squared deviations must be divided by the sample size minus one. Using the total sample size as the denominator tends to underestimate the true population variance. This mathematical adjustment compensates for the loss of one degree of freedom during the initial sample mean calculation.
8. (B) II and III only
A sufficient estimator utilizes all available sample information so that no alternative statistic can provide additional insights about the parameter. An efficient estimator is characterized by having the smallest standard error among various unbiased statistics of the same sample size. Consistency actually describes an estimator that approaches the true parameter value as the sample size grows during the research process.

- 26.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Calculating exact binomial probabilities becomes increasingly complex as sample sizes grow. Therefore, the normal distribution is used as a convenient approximation for constructing confidence intervals for proportions. This substitution is statistically valid when both the number of expected successes and failures are at least five, ensuring the distribution is sufficiently symmetric and bell-shaped for standard normal curve applications in research.

- 27.** (A) It indicates the error by providing a range and the probability of the parameter lying within it.

Interval estimates are superior to point estimates because they explicitly account for sampling error by providing a range of possible values. They also attach a probability, known as the confidence level, which indicates how likely it is that the true population parameter falls within that range. This information gives decision-makers a clearer understanding of the estimate's reliability and overall precision.

- 28.** (B) Rs. 4,804.00

To calculate the lower limit of a ninety-five per cent confidence interval, subtract one point nine six times the standard error from the sample mean. If the mean is five thousand and the standard error is one hundred, the margin of error is one hundred ninety-six. Subtracting this from five thousand yields four thousand eight hundred and four, representing the lower boundary.

- 29.** (B) In 90 per cent of all samples of this size, the interval will contain the population mean.

A ninety per cent confidence interval means that if we were to take many samples of the same size and construct an interval from each, ninety per cent of those intervals would contain the true population mean. It describes the reliability of the method rather than the probability that a specific calculated interval contains the parameter in any single observed instance.

- 30.** (C) 300 points

The preliminary estimated standard error of the mean is calculated by dividing the sample standard deviation by the square root of the sample size before applying any finite population adjustments. If the sample standard deviation is three thousand and the sample size is one hundred, the square root is ten. Dividing three thousand by ten results in three hundred points.

- 31.** (D) The standard error multiplied by a specific Z-value derived from confidence levels.

The upper and lower limits of a confidence interval are determined by the margin of error, which is the product of the standard error and a specific Z-value. The Z-value is selected based on the desired confidence level from the normal distribution. Adding and subtracting this margin from the sample mean establishes the boundaries for the population parameter estimate being calculated.

- 32.** (A) 284.7

To find the final adjusted standard error of the mean, the preliminary standard error must be multiplied by the finite population multiplier. Multiplying a preliminary error of three hundred by zero point nine four nine results in two hundred eighty-four point seven. This reduction accounts for the fact that a large sample from a finite population provides more relative information about values.

- 33.** (A) III, II, IV, I

Calculating unbiased sample variance begins by finding the sample mean. Next, the difference between each individual observation and that mean is determined. These differences are then squared and summed to find the total squared deviation. Finally, this sum is divided by the sample size minus one to ensure the resulting estimator is statistically unbiased for the population variance being estimated.

- 34.** (B) 0.0229

The standard error of the proportion is calculated by taking the square root of the product of the sample proportion and its complement, divided by the sample size. For a sample size of four hundred and a proportion of zero point three, the calculation involves the square root of zero

accurate with larger samples, has minimal variance, and utilizes all relevant data provided by the specific sample being analyzed.

18. (A) I, II, III, and IV only

When the population standard deviation is unknown, the sample standard deviation serves as a substitute. The standard error is then calculated using this estimated value. If the sample constitutes more than five per cent of a finite population, the finite multiplier is applied to adjust the standard error. Crucially, this multiplier actually decreases rather than increases the final calculated standard error.

19. (A) A confidence interval is always expressed in standard errors and never in numerical values. Confidence intervals are typically expressed in the same numerical units as the data being estimated, such as currency or measurements, rather than just standard errors. While standard errors are used to calculate the boundaries, the final interval represents a range of specific values. These intervals define the upper and lower limits based on the chosen level of statistical confidence being applied.

20. (A) I, II, IV, and V only

Tighter confidence intervals are associated with lower confidence levels or larger sample sizes. Specifically, a ninety-nine per cent confidence level corresponds to two point five eight standard errors. Consistent estimators improve with larger samples, and point estimators yield single numerical values. However, larger sample sizes actually decrease the standard error of the mean, making the third statement regarding increase false.

21. (D) The binomial distribution represents continuous variables rather than discrete variables.

The binomial distribution represents discrete variables, such as the count of successes or failures, rather than continuous variables. It is used in proportion estimation where each trial has only two possible outcomes. The standard error is calculated using successes and failures, and sample statistics are substituted when population parameters are unknown, allowing for normal distribution approximations in large samples.

22. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

The sample mean is considered an unbiased estimator because the average of all possible sample means from a population is mathematically equal to the population mean. This relationship is a fundamental property of the sampling distribution of the mean. Consequently, the mean of the sampling distribution serves as a reliable indicator that the estimator does not systematically overestimate or underestimate values.

23. (D) ± 2.25 standard errors include exactly 98 per cent of the area under the curve.

While standard values like one standard error capturing sixty-eight point three per cent or one point nine six errors capturing ninety-five per cent are standard in normal distributions, two point two five standard errors do not correspond to exactly ninety-eight per cent. Most statistical tables link specific Z-scores to specific areas; for instance, ninety-nine per cent is contained within two point five eight errors.

24. (D) Assertion (A) is false, but Reason (R) is true.

A very high confidence level is not always the best choice because it produces extremely wide intervals that can be too imprecise for practical use. While the reason correctly identifies that high confidence results in fuzzy estimates, the assertion that such levels are always ideal for managers is incorrect. Decision-making often requires a balance between certainty and range precision in data analysis.

25. (A) The population standard deviation must be precisely zero.

The finite population correction factor is used when sampling from a finite population without replacement, especially when the sample size is relatively large compared to the population. It does not require the population standard deviation to be zero; in fact, if the standard deviation were zero, all values would be identical and no estimation would be necessary for the population mean.

44. (C) A sample statistic that is used to estimate a population parameter.

An estimator is a rule or formula, typically a sample statistic, used to calculate an estimate of a population parameter. Common examples include using the sample mean to estimate the population mean or the sample proportion for the population proportion. It is a fundamental tool in inferential statistics that allows researchers to draw conclusions about large groups from smaller samples.

45. (B) Only II

The binomial distribution actually describes discrete variables, not continuous ones, as it deals with counts of distinct outcomes. However, when the sample size is large enough that the products of the sample size and probabilities of success and failure are both at least five, the normal distribution can be used as a valid approximation for estimating various population proportions in samples.

46. (C) 95.5 per cent

According to the empirical rule for normal distributions, approximately ninety-five point five per cent of all observations fall within two standard deviations of the mean. In the context of sampling distributions, this means that ninety-five point five per cent of all possible sample means will lie within plus or minus two standard errors of the true population mean being studied.

47. (A) I and II only

The Central Limit Theorem establishes that the mean of the sampling distribution of means equals the population mean and that a sample size of thirty is generally sufficient for a normal approximation. However, the standard error actually decreases as the sample size increases, rather than increasing proportionally, which makes the third statement scientifically incorrect regarding the basics of sampling theory.

48. (A) 5

To use the normal distribution as an approximation for the binomial distribution in proportion estimation, a common rule of thumb is that both np and nq must be at least five. This ensures that the distribution is sufficiently

symmetric and that the tails do not get cut off at zero or n , allowing for accurate interval construction using standard Z-scores.

49. (B) I and III only

The confidence interval represents the range of the estimate, and the confidence limits are its specific upper and lower boundaries. However, a ninety-five per cent confidence level is associated with a multiplier of one point nine six standard errors, not one point six four. The multiplier of one point six four is actually used for a ninety per cent confidence level.

50. (C) It has a smaller standard error or standard deviation in its sampling distribution.

An estimator is considered more efficient than another if it has a smaller standard error in its sampling distribution for the same sample size. A smaller standard error indicates that the estimator's values are more concentrated around the true parameter, meaning it provides a more precise and reliable estimate with less variability across different random samples from the population studied.

51. (A) I and II only

Sample statistics like $\bar{p}$ and $\bar{q}$ are used to estimate the corresponding population parameters p and q . The formula for the standard error of the population proportion is the square root of the product of p and q divided by the sample size. The mean of a binomial distribution, however, is calculated as n times p , not the sample mean.

52. (D) It utilizes all sample information such that no other estimator can extract more.

An estimator is said to be sufficient if it makes use of all the information contained in the sample concerning the parameter being estimated. No other estimator calculated from the same sample can provide any additional information about that population parameter. This property ensures that the statistic is as informative as possible within the constraints of the specific collected data.

53. (A) I, II, and III only

Standard Z-values correlate with specific areas under the normal curve: one standard error covers sixty-eight point three per cent, two

point two one divided by four hundred, yielding approximately zero point zero two two nine.

35. (A) P-4, Q-1, R-2, S-3

Standard normal distribution multipliers correspond to specific confidence levels. Sixty-eight point three per cent is represented by one standard error, while ninety per cent uses one point six four. The ninety-five per cent level is associated with a multiplier of one point nine six, and the ninety-nine per cent level requires two point five eight standard errors to capture the area.

36. (B) 6 hours

To find the sample mean, sum all the individual observations and divide by the total number of values in the sample. For the processing times of four, six, five, seven, and eight, the total sum is thirty. Dividing this sum by the five observations results in a sample mean of six hours, which serves as the point estimate for time.

37. (D) P-3, Q-2, R-1, S-4

An estimate is a specific numerical value obtained from a sample, while an estimator is the general statistic used to find that value. The confidence level represents the probability that the interval contains the parameter. The upper confidence limit defines the maximum boundary of that range. These terms are fundamental to understanding the framework of statistical interval estimation in research.

38. (B) 2.5

The unbiased point estimate of population variance is calculated by dividing the sum of squared deviations by n minus one. In a scenario where the sum of squared deviations is ten and the sample size is five, the divisor is four. Dividing ten by four results in two point five, which provides an unbiased estimate of the true population variance.

39. (B) 95 per cent confidence level — 47.5 per cent area on either side of the mean.

For a ninety-five per cent confidence interval, the total area of zero point nine five is centered around the mean in a normal distribution. This leaves forty-seven point five per cent of the area on each side of the mean. Consequently, the

Z-value of one point nine six is found where the area under the curve reaches this specific percentage.

40. (A) Estimator B, as it has a smaller standard error in its sampling distribution.

Efficiency in estimation is defined by the variability of the sampling distribution. Between two unbiased estimators, the one with the smaller standard error is considered more efficient. This is because a smaller standard error indicates that the estimator's values are more closely clustered around the true population parameter, providing a more precise and reliable point estimate for the final statistical analysis.

41. (A) s^2 — Biased sample variance.

The symbol s squared typically denotes the sample variance calculated with n minus one in the denominator, which is an unbiased estimator of the population variance. In many statistical contexts, it is the standard notation for the unbiased version. Other symbols like p for success, q for failure, and σp for standard error are used correctly in estimation.

42. (B) A single number used to estimate an unknown population parameter.

A point estimate is a single numerical value calculated from sample data that serves as the best guess for an unknown population parameter. For example, the sample mean is a point estimate of the population mean. While useful, it does not provide any information about the potential error or the degree of uncertainty associated with the actual estimation process itself.

43. (C) Both I and II

An estimator is unbiased if its expected value equals the population parameter, meaning it does not systematically deviate in one direction. Efficiency relates to the precision of the estimator, specifically the magnitude of its standard error. Both statements correctly define these essential properties, which help statisticians evaluate the quality and reliability of different sample statistics used for population level inference.

9. (A) An estimate of the population standard deviation, commonly called sigma hat. The symbol sigma hat represents a point estimate of the population standard deviation derived from sample data. It is commonly calculated using the sample standard deviation with an unbiased correction for degrees of freedom. This notation distinguishes the estimated value from the true population parameter, which is usually unknown in practical statistical analysis and various managerial decision-making research scenarios.
10. (A) I and II only
The sample mean is generally regarded as the best point estimator for the population mean because it meets criteria like unbiasedness and efficiency. Similarly, the sample proportion serves as an unbiased, consistent, and sufficient estimator for population proportions. However, using the sample variance formula with n minus one actually removes bias, making the third statement regarding produced bias incorrect.
11. (A) Consistency
Consistency is a statistical property where an estimator becomes increasingly accurate as the sample size grows. As the number of observations increases, the probability that the statistic yields a value very close to the true population parameter approaches certainty. This quality ensures that larger samples provide more reliable estimates, which is a fundamental requirement for any good and effective estimator.
12. (B) I, III, and IV only
Unbiasedness ensures the mean of the sampling distribution equals the population parameter. Consistency implies the estimator converges to the true value as sample size increases, while sufficiency means it uses all sample data. Efficiency, however, refers to having the smallest possible standard error, not the largest, making the second statement fundamentally incorrect within the framework of statistical estimation theory.
13. (B) They produce large confidence intervals that result in very fuzzy and imprecise estimates. Choosing an extremely high confidence level, such as ninety-nine point nine per

cent, significantly increases the width of the confidence interval. While this provides greater certainty, it results in a range so broad that the estimate becomes imprecise and uninformative for decision-making. Practical applications require a balance between the desired level of confidence and the necessary interval precision for managers.

14. (A) I, II, and IV only
The standard error for an infinite population is defined as the population standard deviation divided by the square root of the sample size. As the sample size increases, this error naturally decreases, leading to more precise estimates. Additionally, estimating the standard error of a proportion involves using binomial approximations, which is valid when specific sample size conditions are met during trials.
15. (D) It is the population standard deviation divided by the square root of the sample size. For an infinite population, the standard error of the mean is calculated by dividing the population standard deviation by the square root of the sample size. This formula quantifies the variability of sample means around the true population mean. It illustrates that increasing the number of observations reduces the sampling error, thereby improving the reliability of the statistical inference being made.
16. (B) II, III, and IV only
An unbiased estimator for population variance requires using n minus one in the denominator rather than the total sample size. The sample standard deviation is correctly found by taking the square root of this unbiased variance. Furthermore, the symbol sigma hat specifically denotes an estimated population standard deviation, providing a critical tool for researchers when true population parameters remain unknown.
17. (B) The sample proportion is an unbiased, consistent, efficient, and sufficient estimator. The sample proportion serves as an ideal estimator for the population proportion because it satisfies all four criteria of a good estimator. It is unbiased, consistent, efficient, and sufficient. This means that, on average, it matches the true parameter, becomes more

errors cover ninety-five point five per cent, and two point five eight errors cover ninety-nine per cent. However, ninety per cent confidence limits require one point six four standard errors, whereas one point nine six is reserved for ninety-five per cent confidence.

- 54.** (C) The mean of its sampling distribution is exactly equal to the population parameter estimated.

An estimator is unbiased if the mean of its sampling distribution is exactly equal to the population parameter it is intended to estimate. This means that if many samples were taken, the average of all resulting estimates would match the true value of the population. It ensures there is no systematic error overestimating or underestimating the parameter in any question.

- 55.** (B) I, II, and IV only

Large samples over thirty allow for normal distribution use, and a standard deviation of six with a sample size of one hundred results in a standard error of zero point six. Additionally, the area between the mean and one point nine six standard errors is zero point four seven five. However, the upper limit is found by adding the margin of error.

- 56.** (A) It is used when the sample size exceeds five per cent of a finite population size.

The finite population correction factor is employed when the sample size is a significant portion of the total population, typically more than five per cent. Its use acknowledges that as the sample size increases relative to the population, uncertainty about the mean decreases. This multiplier adjusts the standard error downward, reflecting increased precision obtained from sampling a large part of groups.

- 57.** (B) I, II, IV, and V only

Inferential statistics use samples to infer population traits, and intervals indicate error through ranges. Finite populations require multipliers, and the mean of sample proportions equals the population proportion. However, high confidence levels actually lead to wider, not narrower, intervals. Increasing confidence requires a larger range to ensure the true parameter is captured, which reduces the precision of the specific estimate.

- 58.** (B) It proves that the population mean will perfectly match the standard error for any sample size.

The Central Limit Theorem relates the distribution of sample means to the population mean and describes the shape of the sampling distribution as normal for large samples. It does not suggest that the population mean will match the standard error. In fact, these are two different statistical measures: one is a measure of center, the other a measure of variability.

- 59.** (A) I, II, III, and V only

The binomial distribution is the basis for proportions, and the normal distribution can approximate it when np and nq are at least five. The standard error formula is the square root of pq divided by n , where q is one minus p . Crucially, $\bar{p}$ and $\bar{q}$ represent sample statistics, not population parameters, making the fourth statement incorrect in terminology.

- 60.** (C) Using dividing by n to calculate sample variance produces an unbiased estimator of the population variance.

Using a denominator of n when calculating sample variance results in a biased estimator that tends to underestimate the true population variance. For an unbiased estimate, the sum of squared deviations must be divided by n minus one. This correction is essential in statistical inference to ensure sample data provides an accurate reflection of the overall variability within the population being analyzed.

- 61.** (B) I, III, IV, and V only

An estimate is a specific value, efficiency compares standard errors, and intervals include probability. Sufficiency implies full use of sample data. However, the sample mean is generally considered an unbiased estimator regardless of sample size, provided the sample is random. Therefore, the claim that the sample mean is biased for samples larger than thirty is statistically incorrect and misleading for researchers.

- 62.** (C) Probability

Unbiasedness, efficiency, consistency, and sufficiency are the four standard technical criteria used by statisticians to evaluate the quality of a statistic as an estimator. While

May/June 2006

34. Which of the following is the best interpretation of a slack variable having a value of zero in the optimum tableau?
- (A) The resource is completely unutilized in the production plan
 - (B) The resource is abundant and can be put to other efficient use
 - (C) The decision variable must be discarded from the production plan
 - (D) The resource is scarce and utilized to its full capacity

Oct/Nov 2017

35. Read the following case scenario and answer the question that follows.
A company manufactures cricket bats (B) and chess sets (C). Workshop 1 has an availability of 120 hours per day. A cricket bat requires 4 hours in Workshop 1, and a chess set requires 6 hours.
 Which of the following represents the standard LP format for the Workshop 1 constraint using slack variable 'm'?
- (A) $4B + 6C + m = 120$
 - (B) $6B + 4C + m = 120$
 - (C) $4B + 6C - m = 120$
 - (D) $4B + 6C = 120 + m$

May/June 2008

36. Read the following case scenario and answer the question that follows.
The slack variables 'n' and 'p' having a value of zero corresponds to Workshops 2 and 3.
 Based on this information, what is the operational status of Workshops 2 and 3?
- (A) They are working to their full capacity
 - (B) They are completely idle
 - (C) They have surplus capacity for future expansion
 - (D) They require additional slack variables to function

Oct/Nov 2013

37. In the initial Simplex tableau, the variable that will add most to profit, if brought into the solution, is indicated by which of the following in the Z-row?
- (A) The variable with the most negative coefficient
 - (B) The variable with the most positive coefficient

- (C) The variable with a coefficient of exactly zero
- (D) The slack variable with the highest right-hand side value

May/June 2015

38. Read the following case scenario and answer the question that follows.
After the first iteration of the Simplex Method for the cricket bats and chess sets problem, the Z-row values are updated. The current Z-row is $[1, -2, -4, 0, 0, 0, 0]$. The pivot entry was 1. What will be the coefficient of C in the new Z-row after this iteration?
- (A) 4
 - (B) 0
 - (C) -2
 - (D) 1

Oct/Nov 2012

39. Consider the following steps required for solving a problem using the Simplex Method:
- I. Set up initial tableau.
 - II. Determine which variable to bring into solution (largest negative number in Z-row).
 - III. Divide the identified row by the pivot entry to arrive at the new pivot row.
 - IV. Update remaining row values.
- Which of the above statement(s) is/are correctly stated for the Simplex procedure?
- (A) I and II only
 - (B) II, III, and IV only
 - (C) I, III, and IV only
 - (D) I, II, III, and IV

May/June 2011

40. Identify the correct pair representing terminology from the Simplex Method.
- (A) Initial Tableau - Represents the final optimal solution reached
 - (B) Entering Variable - Has the most positive coefficient in the Z-row
 - (C) Z-equation - Contains only the slack variables in the formulation
 - (D) Pivot Row - Corresponds to the smallest positive ratio

Oct/Nov 2020

41. Which of the following pieces of information is NOT typically analyzed using Linear Programming?

minus the sample size, divided by the total population size minus one. In this scenario, with a population of one thousand and a sample of one hundred, the values are plugged in directly. This factor adjusts the standard error for the limited nature of the group.

72. (B) III, II, I, IV

Constructing an interval estimate begins with calculating the sample mean as a point estimate. Since the population standard deviation is unknown, the next step is to estimate it using the sample standard deviation. This estimate is then used to find the standard error of the mean. Finally, the upper and lower confidence limits are determined using the multiplier.

73. (B) 0.30

The point estimate of a proportion, denoted as $\bar{p}$, is calculated by dividing the number of successful outcomes by the total sample size. In this case, there are one hundred twenty users utilizing the feature out of a total sample of four hundred. Dividing one hundred twenty by four hundred results in a sample proportion of zero point three zero.

74. (B) P-2, Q-3, R-4, S-1

An unbiased estimator has a mean equal to the population parameter. An efficient one has the smallest standard error. A consistent estimator converges to the true value as the sample size grows, and a sufficient estimator utilizes all available information from the sample. These properties are standard benchmarks used to determine the quality of any statistical estimator used.

75. (C) 0.3590

The upper limit of a ninety-nine per cent confidence interval for a proportion is found by adding the product of the Z-value and the standard error to the sample proportion. Using a Z-value of two point five eight and a standard error of zero point zero two two nine, the margin of error is approximately zero point zero five nine.

76. (C) P-3, Q-4, R-1, S-2

The Greek letter μ represents the population mean, while $\sigma_{\bar{x}}$ represents the standard error of the mean for an infinite population.

$\hat{\sigma}$ is the notation for the estimated population standard deviation, and $\bar{p}$ is the sample proportion. Correct identification of these symbols is essential for reading and applying statistical formulas in the context of estimation and inference.

77. (C) 10

To find the sum of squared deviations, first find the mean of the times four, six, five, seven, and eight, which is six. The deviations are minus two, zero, minus one, one, and two. Squaring these gives four, zero, one, one, and four. Summing these squared values results in ten. This sum is a key component in calculating variance.

78. (C) P-3, Q-4, R-1, S-2

The standard error of the mean for an infinite population uses σ divided by the square root of n . For proportions, the true standard error uses population parameters p and q , while the estimated version uses sample statistics $\bar{p}$ and $\bar{q}$. Finally, the finite population adjustment involves the multiplier and an estimate of the standard deviation, denoted by $\hat{\sigma}$.

79. (D) The mean of their sampling distributions equals the actual population mean.

Both Estimator A and Estimator B are defined as unbiased because the mean of their respective sampling distributions is equal to the true value of the population mean. Unbiasedness ensures that while individual estimates may vary, there is no systematic tendency to overstate or understate the actual parameter. This property makes them fundamentally reliable choices for statistical prediction and managerial decision-making.

80. (D) Consistency — Estimator becomes more reliable as the sample size increases.

Consistency is a property where an estimator becomes more reliable and accurate as the sample size increases, eventually converging on the true population parameter. Other concepts are mismatched: the Central Limit Theorem requires larger samples, point estimates do not provide ranges, and infinite populations do not require a finite multiplier adjustment, as that

- (C) A line indicating the minimum profit required for the firm to reach break-even
 (D) A line where all combinations of variables produce the same total profit

May/June 2019

20. Read the following case scenario and answer the question that follows.

Firm A produces radios and television sets. The firm has 10 hours of machine time available per day. A radio requires 3 hours of machine time, and a television requires 1 hour of machine time. Let x be radios and y be televisions.

Which of the following equations accurately represents the capacity constraint for machine time?

- (A) $3x + y \leq 10$
 (B) $x + 3y \leq 10$
 (C) $3x + y \geq 10$
 (D) $x + y \leq 10$

Oct/Nov 2006

21. When converting an LP problem into the standard LP format for the Simplex Method, what requirement must be met for the right-hand side of the equations?

- (A) It must be negative to reflect capacity utilization
 (B) It must equal the total profit margin
 (C) It must be non-negative
 (D) It must be completely fractional

May/June 2021

22. Read the following statements regarding the conditions under which a Linear Programming problem can be formulated and choose the correct option.

Statement I: All decision variables must have non-negative values.

Statement II: Decision variables must be exclusively discrete and indivisible.

- (A) Both Statement I and Statement II are true
 (B) Both Statement I and Statement II are false
 (C) Statement I is true, but Statement II is false
 (D) Statement I is false, but Statement II is true

Oct/Nov 2010

23. Identify the incorrect pair regarding the conditions for formulating a Linear Programming problem.

- (A) Linearity - Implies a relationship of constant proportionality
 (B) Deterministic constraints - Probabilities of occurrence are presumed to be 1.0
 (C) Decision variables - Variables are assumed to be divisible into fractions
 (D) Variable rules - Variables can have any positive or negative value

May/June 2014

24. What is stated as the main drawback of using the Graphic Approach for solving Linear Programming problems?

- (A) Its inability to handle non-negativity conditions efficiently in large datasets
 (B) The requirement of translating financial constraints into physical constraints
 (C) The inherent assumption that decision variables are indivisible and discrete
 (D) The inefficiency of evaluating numerous possible points in complex problems

Oct/Nov 2007

25. Why is the set of feasible solutions in the Graphic Approach plotted exclusively within the 1st quadrant of the graph?

- (A) Because the objective function must always yield a positive mathematical slope
 (B) Because non-negativity dictates that variables cannot be negative
 (C) Because financial constraints cannot be depicted graphically in other quadrants
 (D) Because machine time must be strictly measured and recorded in positive integers

May/June 2009

26. Identify the correct statement regarding the variables related to a Linear Programming problem whose values are to be determined.

- (A) They are referred to as Objective variables
 (B) They are referred to as Constraint variables
 (C) They are referred to as Slack variables
 (D) They are referred to as Decision variables

Oct/Nov 2011

27. Match the following Line Equations from the Graphic Approach in List I with their corresponding Data points (x, y) given in List II.

CHAPTER 08

Linear Programming

Oct/Nov 2012

1. Consider the following components of a Linear Programming problem:
 - I. A function which has to be maximised or minimised (optimised).
 - II. Conditions with respect to which optimization occurs.
 - III. Variables related to the problem whose values are to be determined.
 Which combination correctly identifies these components in order?
 - (A) I. Decision variables, II. Objective function, III. Constraints
 - (B) I. Constraints, II. Decision variables, III. Objective function
 - (C) I. Objective function, II. Decision variables, III. Constraints
 - (D) I. Objective function, II. Constraints, III. Decision variables

May/June 2005

2. Identify the incorrect statement regarding the selection of a feasible solution from the common area (pentagon) in the Graphic Approach.
 - (A) The primary objective is to select the feasible solution that maximizes total profit
 - (B) The point where $x=0$ and $y=0$ is considered a mathematically valid feasible solution
 - (C) The origin point is sought as the optimal solution to minimize cash outflow
 - (D) Although $x=0$ and $y=0$ is a feasible solution, it inevitably yields zero total profit

Oct/Nov 2025

3. In the context of formulating a Linear Programming problem, what is meant by the condition that constraints are known and deterministic?
 - (A) The probabilities of occurrence are presumed to be 0.5
 - (B) The constraints fluctuate based on market

conditions

- (C) The probabilities of occurrence are presumed to be 1.0
- (D) The constraints are derived from continuous probability distributions

May/June 2018

4. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option.
 Assertion (A): In the Graphic Approach, starting from the origin, we move the iso-profit line parallel to itself in the north-eastern direction as far as possible.
 Reason (R): This movement represents a continuous upward shift in the objective function to find the maximum possible profit within the region of solutions.
 - (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2016

5. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option.
 Assertion (A): As the name implies, all equations in Linear Programming are linear.
 Reason (R): This implies proportionality, meaning if 4 persons produce one unit, 12 persons are required to produce 3 units.
 - (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

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- (C) Assertion (A) is true, but Reason (R) is false.
 (D) Assertion (A) is false, but Reason (R) is true.

May/June 2022

6. In the standard Linear Programming format used for the Simplex Method, all constraints are converted into equations with the help of which of the following?
 (A) Artificial variables
 (B) Slack variables
 (C) Shadow prices
 (D) Iso-profit variables

Oct/Nov 2008

7. Linear Programming is best defined as a mathematical technique used for which of the following purposes?
 (A) To simulate complex probabilistic models for the allocation of unlimited resources
 (B) To optimize limited resource allocation among competing demands
 (C) To qualitatively assess raw material availability and market trends in the industry
 (D) To track human resource efficiency using sophisticated non-linear mathematical equations

May/June 2013

8. Read the following case scenario and answer the question that follows.
Firm A has a total cash balance of Rs. 12,000 to pay for labour and materials. A radio costs Rs. 1,000 total (wages + materials), and a television costs Rs. 4,000 total (wages + materials). Let x be radios and y be televisions.
 Which of the following represents the simplified financial constraint for this scenario?
 (A) $4x + y \leq 12$
 (B) $x + 4y \leq 12$
 (C) $x + 4y \geq 12,000$
 (D) $100x + 400y \leq 12$

Oct/Nov 2019

9. Consider the following statements concerning the Graphic Approach to Linear Programming:
 I. The Iso-profit line is moved parallel to itself in the north-eastern direction to find the optimal point.
 II. The optimal solution is given by the final

point of contact of the pentagon vertex and the iso-profit line.

- III. If an optimal solution exists, at least one such solution is an extreme point of the polygonal region.
 IV. If the iso-profit line and boundary coincide, there will be only one optimal solution.
 V. The approach evaluates all possible points inside the polygon to find the maximum profit.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
 (B) I, III, and IV only
 (C) II, IV, and V only
 (D) I, II, III, and V only

May/June 2025

10. Consider the following statements about the formulation of Linear Programming problems:
 I. Maximum or minimum value can be obtained by forming and solving Linear Programming Problem.
 II. Profit, loss, time, and cost can be optimised with respect to some conditions.
 III. The method requires solving non-linear objective functions with linear constraints.
 IV. The constraints can be used to formulate the problem to attain maximum profit or minimum cost.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
 (B) I, II, and IV only
 (C) II, III, and IV only
 (D) I, III, and IV only

Oct/Nov 2005

11. Identify the correct statement regarding the role of slack variables in the Simplex Method.
 (A) Values representing the exact amount of profit generated by each variable
 (B) Negative values used to offset production costs and resource expenditures
 (C) Values that determine the mathematical slope of the objective function line
 (D) Non-negative values used to convert inequality constraints into equations

May/June 2010

12. Which of the following is NOT given as an example of a resource and marketing constraint

when formulating a Linear Programming problem?

- (A) Market absorption limits for the total output
- (B) Bank-stipulated working capital requirements
- (C) Minimum shareholder dividend requirements
- (D) Raw material availability and supply limits

Oct/Nov 2021

13. Read the following statements regarding the feasible solutions in the graphic approach and choose the correct option.

Statement I: Even though all constraints are listed separately, they should be satisfied simultaneously.

Statement II: Every point in the common area, shaped like a pentagon in a typical example, satisfies the constraints.

- (A) Both Statement I and Statement II are true
- (B) Both Statement I and Statement II are false
- (C) Statement I is true, but Statement II is false
- (D) Statement I is false, but Statement II is true

May/June 2016

14. When illustrating the graphic approach, using 3 decision variables would require what type of graphing?

- (A) 1-D graphing
- (B) 2-D graphing
- (C) 3-D graphing
- (D) 4-D graphing

Oct/Nov 2009

15. Identify the incorrect statement regarding the Simplex Method.

- (A) It is a standard technique for solving optimisation problems typically involving an objective function and inequalities
- (B) With computer programmes, it is possible to use this method effectively for 10-12 variables
- (C) It converts constraints expressed as inequalities into equations
- (D) It requires exactly two decision variables and cannot handle more than three

constraints

May/June 2023

16. The condition of linearity in Linear Programming implies proportionality. If it takes 4 persons to produce one unit, how many persons are required to produce 3 units?
- (A) 8 persons
 - (B) 10 persons
 - (C) 12 persons
 - (D) 16 persons

Oct/Nov 2018

17. Which of the following statements represents the ONLY exception to the rule that an optimal solution is an extreme point of the polygonal region?

- (A) When the iso-profit line coincides with a boundary, creating multiple solutions
- (B) When the capacity constraints exceed the financial constraints in the model
- (C) When the objective function incorporates more than two distinct variables
- (D) When the origin point is the only feasible solution available to the firm

May/June 2007

18. Match the following constraint types in List I with their corresponding examples in List II.

List I: (Constraint Type)

- P. Financial constraint
- Q. Marketing constraint
- R. Capacity constraint
- S. Input constraint

List II: (Example)

- 1. Raw materials availability
- 2. Bank stipulates working capital requirements
- 3. Assembly time limitation
- 4. Market may not absorb the whole output
- (A) P-2, Q-4, R-3, S-1
- (B) P-4, Q-2, R-1, S-3
- (C) P-2, Q-3, R-4, S-1
- (D) P-3, Q-1, R-2, S-4

Oct/Nov 2014

19. The term 'Iso-Profit' line in the Graphic Approach is best defined as:

- (A) A line representing the specific physical boundary of raw material availability
- (B) A line that isolates the non-negative decision variables from negative values

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adjustment is specifically for limited groups studied.

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List I: (Line Equation)

P. Line 1: $x + y = 4$

Q. Line 2: $3x + y = 10$

R. Line 3: $x + 4y = 12$

S. Origin Point

List II: (Data Points)

1. (3, 1) and (2, 4)

2. (0, 0)

3. (0, 3) and (4, 2)

4. (0, 4) and (2, 2)

(A) P-4, Q-1, R-3, S-2

(B) P-1, Q-4, R-2, S-3

(C) P-3, Q-2, R-4, S-1

(D) P-4, Q-3, R-1, S-2

May/June 2017

28. Which of the following best represents the primary objective when a decision-maker formulates a Linear Programming problem in a financial context?

- (A) To optimize profit, loss, or cost under specific circumstances
 (B) To evaluate the subjective preferences and qualitative goals of the management team
 (C) To eliminate all operational constraints and bottlenecks within the production facility
 (D) To ensure that all decision variables yield negative outputs for corporate tax reduction

Oct/Nov 2022

29. Identify the correct pair representing the optimal point location in the polygonal region representing feasible solutions.

- (A) Optimal Solution - At the exact center of the polygonal region
 (B) Optimal Solution - At the origin point (0,0)
 (C) Optimal Solution - At an extreme point of the polygonal region
 (D) Optimal Solution - Outside the boundary of the financial constraint

May/June 2020

30. Read the following case scenario and answer the question that follows.

Firm A produces radios and television sets. A radio costs Rs. 500 in wages and Rs. 500 in materials. A television costs Rs. 2,500 in wages and Rs. 1,500 in materials. The price of a radio is Rs. 2,000, and a television is Rs.

6,000. Let x and y be the units of radios and televisions produced.

What is the correct objective function to maximise profit for Firm A?

(A) Maximise Profit = $500x + 2,500y$

(B) Maximise Profit = $2,000x + 6,000y$

(C) Maximise Profit = $1,000x + 4,000y$

(D) Maximise Profit = $1,000x + 2,000y$

Oct/Nov 2015

31. Consider the following steps of the Simplex Method:

I. Set up initial tableau.

II. Formulate problem in terms of an objective function and a set of constraints.

III. Write it in the standard LP format.

IV. Determine which variable to bring into solution.

Which combination represents the correct chronological order of these steps?

(A) II, III, I, IV

(B) I, II, III, IV

(C) II, I, III, IV

(D) III, II, IV, I

May/June 2024

32. Read the following case scenario and answer the question that follows.

Firm A manufactures cricket bats (B) and chess sets (C) with unit profits of Rs. 2 and Rs. 4 respectively.

If the optimal production plan is determined to be 12 cricket bats and 10 chess sets, what is the maximum profit obtained?

(A) Rs. 24

(B) Rs. 64

(C) Rs. 4

(D) Rs. 120

Oct/Nov 2024

33. When deciding which current basic variable is to be replaced by the entering variable in the Simplex Method, the best procedure is to:

(A) Choose the largest negative value in the ratio column

(B) Choose the smallest positive value in the ratio column

(C) Choose the highest positive value in the entering variable's column

(D) Choose the slack variable that corresponds to the highest profit margin

probability is a concept used to construct and interpret interval estimates, it is not considered one of the specific properties that define a good estimator in the way that efficiency, consistency, or unbiasedness are technically defined.

- 63.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

The formula for sample variance uses n minus one in the denominator because using only n leads to a systematic underestimation of the population variance, creating bias. By reducing the denominator to n minus one, the value of the variance is slightly increased, which mathematically compensates for bias and results in an estimator whose average value over many samples equals the parameter.

- 64.** (D) It inherently accounts for the margin of uncertainty or error.

While point estimators like the sample mean can be unbiased and efficient, they consist of only a single numerical value. Because they provide no range or probability of error, they do not inherently account for the margin of uncertainty or the reliability of the estimate. This lack of error measurement is why interval estimates are often preferred over point estimates in research.

- 65.** (C) Assertion (A) is true, but Reason (R) is false.

The finite population correction factor is indeed applied when sampling from a finite population. However, the multiplier actually decreases the standard error rather than increasing it. As the sample size becomes a larger fraction of the population, there is less uncertainty about the mean, leading to a smaller standard error and a more precise estimate of the true population parameter value.

- 66.** (C) The formula for the standard error of the population proportion omits the sample size n . The normal approximation to the binomial distribution relies on several conditions, including that successes equal n times p and that the calculation of exact probabilities for large samples is difficult. However, the formula for the standard error of a proportion absolutely must include the sample size n , as the error is

inversely related to the square root of the total trials.

- 67.** (B) Rs. 100.00

The standard error of the mean is calculated by dividing the population standard deviation by the square root of the sample size. With a population standard deviation of one thousand two hundred and a sample size of one hundred forty-four, the square root is twelve. Dividing one thousand two hundred by twelve results in a standard error of exactly one hundred.

- 68.** (D) Pick the statistic with the smaller standard error or standard deviation.

When faced with multiple unbiased estimators, the most efficient one should be chosen. Efficiency is determined by the size of the standard error or standard deviation of the sampling distribution. The estimator with the smaller standard error is preferred because its values are more likely to be closer to the true population parameter, thus providing a more precise and reliable estimate.

- 69.** (A) Rs. 5,164.00

To find the upper limit of a ninety per cent confidence interval, add the product of the Z-value for ninety per cent and the standard error to the sample mean. The Z-value for ninety per cent is one point six four. Multiplying one point six four by a standard error of one hundred gives one hundred sixty-four. Adding this to five thousand yields five thousand one hundred sixty-four.

- 70.** (C) It ensures the resulting statistic is an unbiased estimator of the population variance. Dividing by n minus one is the mathematical adjustment required to ensure that the sample variance is an unbiased estimator of the population variance. Without this correction, the sample variance would consistently underestimate the true spread of the population. This adjustment accounts for the fact that the sample mean, used in the calculation, is itself an estimate, consuming one degree of freedom.

- 71.** (B) $\sqrt{\frac{1000 - 100}{1000 - 1}}$

The formula for the finite population multiplier is the square root of the total population size

- (A) The sensitivity of results to changes in costs
- (B) The historical depreciation of machinery used in production
- (C) The marginal effects of financial constraints on profitability
- (D) Multi-period budgeting using a spreadsheet matrix

May/June 2022

42. Which of the following is NOT a step involved in forming a new tableau after identifying the pivot entry?
- (A) Calculating the new pivot row
 - (B) Dividing the current pivot row by the pivot entry
 - (C) Reversing the signs of all coefficients in the Z-row automatically
 - (D) Calculating all other rows using the formula: current row - (pivot entry) $\times$ (new pivot row)

Oct/Nov 2023

43. Read the following case scenario and answer the question that follows.
- In the second iteration, B is the entering variable. The ratios calculated for replacing variables are 60/4 for m, 12/2 for n, and 10/0 for p.*
- Which variable corresponds to the smallest positive ratio and will be replaced?
- (A) m (ratio 15)
 - (B) n (ratio 6)
 - (C) p (ratio undefined)
 - (D) B (ratio 0)

May/June 2005

44. Read the following case scenario and answer the question that follows.
- Using the objective function Maximise $Z = 2B + 4C$, and slack variables m, n, p for three workshops.*
- How is the Z equation correctly written in the standard initial tableau format?
- (A) $Z + 2B + 4C + m + n + p = 0$
 - (B) $Z = 2B + 4C + 1m + 1p + 1n$
 - (C) $Z - 4B - 2C - 0m - 0n - 0p = 1$
 - (D) $Z - 2B - 4C - 0m - 0n - 0p = 0$

Oct/Nov 2025

45. Read the following case scenario and answer the question that follows.

In the optimum tableau, the slack variables 'n' and 'p', representing Workshops 2 and 3 respectively, do not appear as basic variables.

What does their absence as basic variables imply about their values?

- (A) Their values are infinite
- (B) Their values are equal to the Z-row coefficients
- (C) Their values are zero
- (D) Their values are negative, indicating a deficit

May/June 2018

46. Consider the following statements regarding the information provided by the Simplex tableau:
- I. It gives the variables which are in the solution at that point.
 - II. It gives the profit associated with the solution.
 - III. It identifies the variable that will add the most to profit if brought into the solution.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

Oct/Nov 2016

47. Read the following statements about solving minimization problems and choose the correct option.
- Statement I: The procedural steps for solving minimization problems are identical to maximization problems.
- Statement II: In minimization problems, the objective is to minimise, rather than maximise.
- (A) Both Statement I and Statement II are true
 - (B) Both Statement I and Statement II are false
 - (C) Statement I is true, but Statement II is false
 - (D) Statement I is false, but Statement II is true

May/June 2012

48. Read the following statements regarding the formulas used for forming a new tableau in the Simplex Method and choose the correct option.

Statement I: The new pivot row is calculated as (current pivot row) / (pivot entry).

Statement II: All other rows are calculated as current row - (pivot entry) $\times$ (new pivot row).

- (A) Both Statement I and Statement II are true
 (B) Both Statement I and Statement II are false
 (C) Statement I is true, but Statement II is false
 (D) Statement I is false, but Statement II is true

Oct/Nov 2008

49. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option.

Assertion (A): The Simplex Method iteration process stops when there are no negative numbers in the Z-row for a maximization problem.

Reason (R): The absence of negative numbers in the Z-row indicates that bringing any new variable into the solution will not add further to the profit.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 (C) Assertion (A) is true, but Reason (R) is false.
 (D) Assertion (A) is false, but Reason (R) is true.

May/June 2013

50. Read the following case scenario and answer the question that follows.

In the initial tableau, the solutions column values are $m=120$, $n=72$, $p=10$. The C column entries (the entering variable column) are $m=6$, $n=6$, $p=1$.

Which variable is chosen as the replacing variable based on the ratio calculation?

- (A) m, because its ratio is $120/6 = 20$
 (B) n, because its ratio is $72/6 = 12$
 (C) p, because its ratio is $10/1 = 10$
 (D) C, because it is the entering variable

Oct/Nov 2019

51. Identify the incorrect statement regarding the information derived from the optimum tableau.

- (A) The tableau provides info beyond just the main variable values
 (B) Slack variables help in understanding the status of resources
 (C) A scarce resource is one where the slack variable value is zero
 (D) A zero slack variable value indicates resource abundance

May/June 2025

52. Match the following Simplex Method terms in List I with their functional descriptions in List II.

List I: (Simplex Term)

- P. Entering Variable
 Q. Replacing Variable
 R. Pivot Entry
 S. Slack Variable

List II: (Functional Description)

- Converts inequality constraints into standard LP equations
 - Corresponds to the smallest positive ratio
 - Indicates the variable that will add most to profit
 - The intersection of the pivot row and pivot column
- (A) P-2, Q-3, R-1, S-4
 (B) P-3, Q-4, R-2, S-1
 (C) P-4, Q-1, R-3, S-2
 (D) P-3, Q-2, R-4, S-1

Oct/Nov 2005

53. Read the following case scenario and answer the question that follows.

A company manufactures cricket bats (B) and chess sets (C). Each cricket bat gives a profit of Rs. 2, and a chess set gives a profit of Rs. 4. What is the correct objective function for this problem?

- (A) Maximise $Z = 4B + 2C$
 (B) Maximise $Z = 2B - 4C$
 (C) Maximise $Z = 2B + 4C$
 (D) Maximise $Z = 4B - 2C$

May/June 2010

54. In minimization problems solved via the Simplex Method, a positive Z-row value indicates which of the following?

- (A) An error in formulating the standard LP format
- (B) That the optimum solution has definitively been reached
- (C) Potential improvement, guiding the choice of the entering variable
- (D) That a slack variable must be converted into an artificial variable

Oct/Nov 2021

55. Read the following case scenario and answer the question that follows.

After completing the first iteration, the new Z-row contains the coefficients: $B = -2$, $C = 0$, $m = 0$, $n = 0$, $p = 4$.

What does the presence of -2 under variable B indicate for the next step?

- (A) B becomes the entering variable
- (B) B is removed from the function
- (C) The optimum solution is found
- (D) B becomes a slack variable

May/June 2016

56. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option.

Assertion (A): In the Simplex Method, the intersection of the highlighted entering variable column and the replacing variable row is called the pivot entry.

Reason (R): The pivot entry is exclusively used to calculate the new pivot row by dividing the current pivot row by the pivot entry.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2009

57. Read the following case scenario and answer the question that follows.

Analysis of the optimum tableau for a company indicates that the slack variable 'm', corresponding to Workshop 1, has a value of 6 ($m = 6$).

What does this specific value signify regarding

Workshop 1?

- (A) Workshop 1 is an abundant resource and not fully utilized
- (B) Workshop 1 is working to its full capacity of 120 hours
- (C) Workshop 1 is short of six hours to meet the total demand
- (D) Workshop 1 is producing six units of the entering variable

May/June 2023

58. Identify the incorrect statement regarding the steps to arrive at the new tableau values in the Simplex Method.

- (A) Ratio calculation - Computed by dividing Solution column by Z-row coefficients
- (B) New pivot row - Derived by dividing current pivot row by pivot entry
- (C) Optimal Solution condition - Reached when there are no negative numbers in the Z-row
- (D) Standard LP form - Involves adding slack variables to less-than-or-equal-to constraints

Oct/Nov 2018

59. In the context of the optimum tableau, a resource is defined as an "abundant resource" if:

- (A) Its corresponding slack variable has a value of zero
- (B) Its corresponding decision variable is completely removed
- (C) Its corresponding slack variable has a positive value
- (D) The objective function achieves a negative result

May/June 2007

60. Read the following case scenario and answer the question that follows.

In the initial tableau for the cricket bats and chess sets problem, the Z-row coefficients are: $B = -2$, $C = -4$, $m = 0$, $n = 0$, $p = 0$.

Which variable is identified as the entering variable and why?

- (A) B, because it possesses a negative coefficient in the Z-row
- (B) C, due to its having the most negative coefficient
- (C) Z, as it represents the primary objective function to solve

with that entire boundary segment. In this specific case, any point along that segment, including all points between two vertices, yields the same maximum profit, resulting in multiple solutions.

18. (A) P-2, Q-4, R-3, S-1

Financial constraints involve capital requirements, such as bank-stipulated working capital. Marketing constraints limit production based on demand, ensuring output does not exceed market absorption. Capacity constraints refer to production limits like assembly time. Input constraints relate to the availability of physical resources like raw materials. Correctly identifying these categories is essential for formulating accurate linear programming models.

19. (D) A line where all combinations of variables produce the same total profit

An iso-profit line represents all possible combinations of production quantities that yield the same total profit. In the graphic approach, this line is plotted and then shifted away from the origin to find the highest possible profit level within the feasible region. Every point on a single iso-profit line shares an identical objective function value for the firm.

20. (A) $3x + y \leq 10$

Machine time constraints are expressed by multiplying the time required for each product by the number of units produced. If a radio takes 3 hours and a television takes 1 hour, the total time used is $3x + y$. Since only 10 hours are available, this total must be less than or equal to 10, resulting in the constraint $3x + y \leq 10$.

21. (C) It must be non-negative

In the standard linear programming format required for the simplex method, all right-hand side constants must be non-negative. If a constraint has a negative value on the right side, the entire equation must be multiplied by negative one, which also reverses the inequality sign. This ensures that the initial basic feasible solution is mathematically manageable within the tableau structure.

22. (C) Statement I is true, but Statement II is false

Linear programming requires that all decision variables be non-negative, as negative production is physically impossible. However, the model also assumes divisibility, meaning variables can take fractional values. They are not restricted to being exclusively discrete or indivisible integers. This assumption allows for solutions where fractional units might be produced, although they are often rounded in practical business applications.

23. (D) Variable rules - Variables can have any positive or negative value

A fundamental rule in linear programming is the non-negativity condition, which stipulates that decision variables cannot have values less than zero. Other assumptions include linearity for proportionality, deterministic constraints for certainty, and divisibility for fractional values. Stating that variables can be negative is incorrect because production or resource usage quantities must be zero or positive to be realistic.

24. (D) The inefficiency of evaluating numerous possible points in complex problems

The graphic approach is a useful visual tool but becomes highly inefficient as the complexity of the problem increases. It is generally limited to two or three decision variables because higher dimensions cannot be easily visualized or plotted. Evaluating a large number of constraints and points manually becomes impractical, necessitating the use of the more robust simplex method for larger problems.

25. (B) Because non-negativity dictates that variables cannot be negative

Non-negativity is a core assumption of linear programming, meaning variables like production units or hours must be zero or positive. On a Cartesian plane, the region where both the x and y axes are non-negative is the first quadrant. Therefore, all feasible solutions must lie within this quadrant to ensure that the mathematical results remain physically possible.

26. (D) Decision variables

Decision variables represent the unknown quantities that a decision-maker needs to

multi-period planning

2. Incorporates all desired goals into the objective function for break-even analysis
 3. Analyses percentage change in profit for a 1% change in cost
 4. Analyses impacts of financial constraints on liquidity and profitability
- (A) P-4, Q-3, R-1, S-2
(B) P-3, Q-2, R-4, S-1
(C) P-3, Q-4, R-2, S-1
(D) P-2, Q-4, R-3, S-1

May/June 2009

68. Which of the following is NOT a feature of Goal Programming?
- (A) It is a special type of Linear Programming used in profit planning
(B) It replaces the objective function entirely with qualitative matrices
(C) The desired goals are incorporated into the objective function
(D) All goals, one or many, are incorporated into the objective function

Oct/Nov 2011

69. Consider the graphical approach for a problem with capacity and financial constraints:
- I. All points on or below the constraint lines satisfy the respective constraints.
 - II. The restrictions placed on top of each other obtain a common area shaped like a polygon.
 - III. Any feasible point inside the polygon maximizes profit equally.
 - IV. The optimal solution exists at an extreme point of the polygonal region.
- Which of the above statement(s) correctly describe the graphical optimization process?
- (A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, III, and IV only

May/June 2017

70. Consider the following terms related to Linear Programming:
- I. Objective Function
 - II. Basic Feasible Solution
 - III. Shadow Prices
 - IV. Substitution Rate
 - V. Artificial Variable
- Which of the following terms are associated

with the study of Linear Programming?

- (A) I, II, and III only
(B) I, III, IV, and V only
(C) II, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2022

71. Consider the following statements regarding the sensitivity analysis using Linear Programming:
- I. It can find the sensitivity of results to changes in labor availability.
 - II. For a 1% change in cost, the percentage change in profit can be analysed.
 - III. It completely eliminates uncertainties in demand.
- Which of the above statement(s) is/are correct?
- (A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2020

72. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option.
- Assertion (A): Linear Programming can be used for making multi-period financial budgeting.
- Reason (R): Accounts can be represented in a matrix form in a spreadsheet to utilize this method.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2015

73. Consider the following conclusions regarding Linear Programming models:
- I. They can solve optimization problems involving either maximization or minimization.
 - II. Graphic methods are highly efficient for problems with a large number of

- (D) m, because its coefficient is zero in the current formulation

Oct/Nov 2014

61. Identify the correct statement regarding Goal Programming and financial decisions.
- (A) It is used solely to calculate labor wages and production schedules
 - (B) It prevents the use of multi-period budgeting in financial systems
 - (C) It incorporates goals into the objective function to aid decisions
 - (D) It requires completely discarding linear constraints and variables

May/June 2019

62. Match the specific LP terms from List I with their meanings from List II.

List I: (Term)

- P. Divisibility
- Q. Non-negativity
- R. Deterministic
- S. Proportionality

List II: (Meaning)

- 1. Implies all equations are linear
 - 2. Variables cannot have values less than zero
 - 3. Probabilities of occurrence are presumed to be 1.0
 - 4. Decision variables can take fractional values
- (A) P-4, Q-2, R-3, S-1
 - (B) P-2, Q-4, R-1, S-3
 - (C) P-4, Q-3, R-2, S-1
 - (D) P-3, Q-1, R-4, S-2

Oct/Nov 2006

63. For a 1% change in cost, Linear Programming can be used to analyse the percentage change in which of the following?
- (A) Profit
 - (B) Working capital
 - (C) Machine time
 - (D) Assembly time

May/June 2021

64. Consider the following statements about the representation of accounts in Financial Budgeting using LP:
- I. Accounts should be represented in a matrix form.
 - II. The matrix form is typically executed in a

spreadsheet.

- III. This matrix representation prevents multi-period budgeting.

Which of the above statement(s) is/are correct?

- (A) Only I and II
- (B) Only II and III
- (C) Only I and III
- (D) I, II, and III

Oct/Nov 2010

65. Identify the incorrect statement regarding further analysis of the Linear Programming method in decision-making.

- (A) LP finds sensitivity of results to changes in raw materials
- (B) LP is used in profit planning via Goal Programming methods
- (C) LP cannot incorporate probabilities under any circumstances
- (D) LP is used for budgeting by representing accounts in matrices

May/June 2014

66. Consider the following general phases of utilizing Linear Programming models:

- I. Interpret the optimum tableau for resource status (abundant/scarse).
- II. Establish the objective function and linear constraints.
- III. Convert constraints into equations using slack variables.
- IV. Execute Simplex iterations until the Z-row has no negative numbers.

Which combination represents the correct chronological order of these phases?

- (A) II, III, IV, I
- (B) I, II, III, IV
- (C) II, IV, III, I
- (D) III, II, I, IV

Oct/Nov 2007

67. Match the analytical applications of Linear Programming in List I with their corresponding descriptions in List II.

List I: (Application)

- P. Sensitivity Analysis
- Q. Marginal Effects Analysis
- R. Goal Programming
- S. Financial Budgeting

List II: (Description)

- 1. Uses a matrix form in a spreadsheet for

Oct/Nov 2013

- 79.** Consider the logic applied to determine the optimal solution in the Simplex Method:
- I. The entering variable is chosen based on the most negative coefficient in the Z-row.
 - II. The replacing variable is chosen based on the largest positive ratio.
 - III. The pivot entry is the intersection of the pivot row and pivot column.
 - IV. The optimum solution is reached when no negative numbers remain in the Z-row.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III only
 - (B) I, III, and IV only
 - (C) II, III, and IV only
 - (D) I, II, III, and IV

May/June 2015

- 80.** Consider the following statements about slack variables in the Simplex Method:
- I. They represent unutilized capacities when they appear as positive values in the optimal tableau.
 - II. They convert linear inequality constraints into equations.
 - III. They always take negative values in the initial tableau to balance the equations.
- Which of the above statement(s) is/are correct?
- (A) Only I and II
 - (B) Only II and III
 - (C) Only I and III
 - (D) I, II, and III

ANSWERS

1. (D) I. Objective function, II. Constraints, III. Decision variables
Linear programming essentially requires an objective function, which is a mathematical statement representing the goal of maximizing or minimizing a specific value like profit or cost. Constraints represent the limitations or conditions under which the optimization occurs. Decision variables are the specific unknown quantities in the problem that the decision-maker aims to determine through optimization.
2. (C) The origin point is sought as the optimal solution to minimize cash outflow
In the graphic approach for maximization, the origin point representing zero production is technically a feasible solution but usually results in zero profit. The goal is typically to find an optimal point at a vertex of the feasible region that maximizes total profit. Minimizing cash outflow is not the primary purpose when searching for an optimal production mix.
3. (C) The probabilities of occurrence are presumed to be 1.0
Deterministic constraints in linear programming imply that the parameters and conditions are known with absolute certainty. This assumption means that the probabilities of occurrence for the specified constraints are presumed to be 1.0. If uncertainties exist, probabilities would be used to formulate the problem, but standard models assume constant, fixed values for all constraints and coefficients.
4. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Moving the iso-profit line parallel to itself in a north-eastern direction represents an increase in the total profit value. As the line shifts further from the origin, it explores higher profit levels within the feasible region. The final point of contact with the polygonal boundary indicates the maximum possible profit achievable under the given constraints and variables.
5. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Linearity in programming problems requires that the relationship between variables and the objective function remains constant. This principle implies proportionality, where the resources required or output produced changes in direct ratio to the change in activity levels. For example, if labor requirements are linear, tripling the output will necessitate exactly three times the number of workers originally used.
6. (B) Slack variables
The simplex method requires constraints to be expressed as equalities rather than inequalities. Slack variables are introduced to represent the difference between the left-hand side and the right-hand side of a less-than-or-equal-to constraint. These non-negative variables transform inequalities into standard linear equations, accounting for unused capacity or resources within the mathematical model during the iterative process.
7. (B) To optimize limited resource allocation among competing demands
Linear programming is a powerful mathematical technique designed to find the best possible outcome in a given mathematical model. It specifically focuses on the optimal allocation of scarce resources among various competing demands to achieve a specific goal. This optimization involves either maximizing beneficial outcomes like profit or minimizing detrimental ones like time, waste, or production costs.
8. (B) $x + 4y \leq 12$
The total cost of production must not exceed the available cash balance of 12,000. For radios and televisions costing 1,000 and 4,000 respectively, the constraint is $1,000x + 4,000y \leq 12,000$. Dividing the entire equation by 1,000 simplifies this to $x + 4y \leq 12$, which accurately

represents the financial limitation in a standard linear programming format.

9. (A) I, II, and III only

The graphic approach identifies optimal solutions at the extreme points or vertices of the feasible region. Shifting the iso-profit line north-east helps locate the highest profit point within this polygon. While the method focuses on these vertices, it does not require evaluating every single point inside the region, as the optimum necessarily occurs on the boundary or vertices.

10. (B) I, II, and IV only

Formulating linear programming problems allows managers to optimize profit, cost, or time by solving linear functions subject to specific conditions. The model assumes linearity in both the objective function and the constraints. Non-linear functions are not part of standard linear programming techniques. These linear models effectively use constraints to determine the maximum or minimum possible values for the objectives.

11. (D) Non-negative values used to convert inequality constraints into equations

Slack variables are essential in the simplex method for turning inequality constraints into standard equations. They represent the amount of a resource that is not utilized in a specific production plan. These variables must always be non-negative to ensure physical feasibility. By adding these placeholders, the mathematical system can be solved using matrix operations and iterative algebraic steps.

12. (C) Minimum shareholder dividend requirements

Common constraints in linear programming include input availability, market absorption limits, and financial requirements like working capital. Shareholder dividend requirements are typically financial distributions of profit rather than constraints on the production process or resource allocation. Standard models focus on operational limitations such as raw materials, machine capacity, labor hours, and market demand to find the optimal production mix.

13. (A) Both Statement I and Statement II are true
In the graphic approach, the feasible region is the intersection of all constraint inequalities. Every point within this common area satisfies all constraints simultaneously. Even though each limitation is plotted as a separate line, the final solution must respect every boundary. This overlapping area, often forming a polygon, contains all possible combinations of decision variables that are mathematically valid.

14. (C) 3-D graphing

The number of dimensions in a graph corresponds to the number of decision variables in the linear programming problem. Two variables are plotted on a standard 2-D plane using x and y axes. When a third variable is introduced, a 3-D graph is required to represent the feasible region, which becomes a three-dimensional solid rather than a flat polygon.

15. (D) It requires exactly two decision variables and cannot handle more than three constraints
The simplex method is highly versatile and designed to handle problems involving many variables and constraints. Unlike the graphic approach, which is limited to two or three variables, simplex can solve complex models with hundreds of variables using computer programs. It works by converting inequalities into equations and iteratively moving between basic feasible solutions to reach the optimal profit or cost.

16. (C) 12 persons

The principle of proportionality in linear programming assumes a direct linear relationship between inputs and outputs. If producing one unit requires four persons, then the total labor requirement is calculated by multiplying the unit requirement by the total number of units. Therefore, producing three units would require twelve persons, maintaining a constant ratio of resources to production volume throughout the process.

17. (A) When the iso-profit line coincides with a boundary, creating multiple solutions

An optimal solution generally occurs at an extreme point of the feasible region. However, if the iso-profit line has the same slope as one of the constraint boundaries, the line will coincide

constraints.

- III. Simplex tableaus can reveal whether a resource is fully exhausted or abundant.
 - IV. Multi-period budgeting and sensitivity analysis are advanced applications of LP.
 - V. Goal programming integrates multiple targets directly into the objective function.
- Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV only
- (B) I, III, IV, and V only
- (C) II, III, IV, and V only
- (D) I, II, IV, and V only

May/June 2024

- 74.** Consider the following characteristics of Linear Programming:
- I. It allocates limited resources among competing demands in an optimal way.
 - II. It requires equations to be linear, implying proportionality.
 - III. It demands that decision variables be non-negative and divisible.
 - IV. It uses the graphic approach efficiently for 10-12 variables.
 - V. It can incorporate probabilities when demand uncertainties exist.
- Which of the above statement(s) is/are correct?
- (A) I, II, III, and IV only
 - (B) I, II, III, and V only
 - (C) II, III, IV, and V only
 - (D) I, III, IV, and V only

Oct/Nov 2024

- 75.** Consider the following statements regarding the use of Linear Programming for Financial Budgeting:
- I. We can use LP for Financial Budgeting in the same way as Profit planning.
 - II. Accounts should be represented in a matrix form in a spreadsheet.
 - III. This method restricts budgeting strictly to a single period.
 - IV. It helps in making multi-period budgeting.
 - V. It uses Goal Programming techniques directly for trial balances.
- Which of the above statement(s) is/are correct?
- (A) I, II, and IV only
 - (B) II, III, and V only

- (C) I, III, and IV only
- (D) I, II, IV, and V only

May/June 2006

- 76.** Which of the following is the best approach mentioned for handling uncertainties in demand when formulating a Linear Programming problem?
- (A) Ignoring the demand constraint entirely to maintain linearity
 - (B) Substituting slack variables with artificial variables
 - (C) Shifting exclusively to the graphic approach
 - (D) Using probabilities while formulating the problem

Oct/Nov 2017

- 77.** Consider the following rules for applying the Simplex Method to minimization problems:
- I. The procedural steps are identical to those for solving maximization problems.
 - II. The objective changes from maximizing to minimizing.
 - III. A negative Z-row value indicates potential improvement.
 - IV. The entering variable selection criteria is altered compared to maximization.
- Which of the above statement(s) is/are correct regarding minimization rules?
- (A) I, II, and III only
 - (B) I, II, and IV only
 - (C) II, III, and IV only
 - (D) I, III, and IV only

May/June 2008

- 78.** Identify the correct statement regarding the treatment of uncertainties in Linear Programming.
- (A) Uncertainties in demand render LP completely useless for financial decisions
 - (B) When there are uncertainties in demand, we can use probabilities while formulating the problem
 - (C) Uncertainties mandate the exclusive use of the Graphic Approach over the Simplex Method
 - (D) Slack variables automatically neutralize any uncertainty in raw material availability

determine to optimize the objective function. These variables are the inputs that the firm can control, such as the number of units to produce. They are distinguished from slack variables, which measure unused capacity, and the objective function itself, which measures the final result like profit or cost.

27. (A) P-4, Q-1, R-3, S-2

Line equations are plotted by finding intercepts. For $x + y = 4$, points like (0,4) and (2,2) satisfy the equation. For $3x + y = 10$, points (3,1) and (2,4) work. For $x + 4y = 12$, (0,3) and (4,2) are valid. The origin point is always represented by coordinates (0,0). Matching these points correctly allows for accurate constraint graphing.

28. (A) To optimize profit, loss, or cost under specific circumstances

The main goal of formulating a linear programming problem in finance is optimization. This involves either maximizing a desirable outcome, like total profit, or minimizing an undesirable one, such as production costs or potential losses. This process occurs under a set of linear constraints that define the limits of available resources, financial capital, and market demands within the firm.

29. (C) Optimal Solution - At an extreme point of the polygonal region

In linear programming, the optimal solution is mathematically guaranteed to be located at one of the extreme points, or vertices, of the feasible region polygon. These points represent the intersection of constraint boundaries. Even if there are multiple optimal solutions, at least one will be an extreme point. Searching these vertices is the fundamental principle behind both graphic and simplex methods.

30. (D) Maximise Profit = $1,000x + 2,000y$

Profit per unit is calculated by subtracting total costs from the selling price. For a radio, price 2,000 minus costs (500 wages + 500 materials) equals 1,000 profit. For a television, price 6,000 minus costs (2,500 wages + 1,500 materials) equals 2,000 profit. Thus, the objective function to maximize total profit for the firm is $1,000x + 2,000y$.

31. (A) II, III, I, IV

Solving a problem via the simplex method begins with formulating the problem by defining the objective function and constraints. Next, this formulation is converted into the standard linear programming format using slack variables. An initial tableau is then constructed to represent the starting basic feasible solution. Finally, the iterative process starts by determining which variable should enter the solution.

32. (B) Rs. 64

To find the maximum profit, the optimal quantities of cricket bats and chess sets are substituted into the objective function. With a unit profit of Rs. 2 for bats and Rs. 4 for chess sets, the total profit is calculated as (2 multiplied by 12) plus (4 multiplied by 10). This calculation results in a total profit of Rs. 64.

33. (B) Choose the smallest positive value in the ratio column

To maintain feasibility in the simplex method, the variable to be replaced is chosen by calculating ratios for each row. This ratio is found by dividing the solution column by the corresponding positive entries in the entering variable column. The row with the smallest positive ratio is selected as the pivot row, identifying the current basic variable that must leave the solution.

34. (D) The resource is scarce and utilized to its full capacity

A slack variable represents the amount of unused resource in a constraint. If a slack variable is zero in the final optimum tableau, it indicates that the entire available amount of that resource has been consumed by the production plan. Such resources are termed scarce or binding, as they limit further increases in the objective function value and are exhausted.

35. (A) $4B + 6C + m = 120$

In the standard linear programming format, a less-than-or-equal-to constraint is converted into an equation by adding a non-negative slack variable. For Workshop 1, with 4 hours per bat, 6 hours per chess set, and a 120-hour limit, the equation becomes $4B + 6C + m = 120$. Here,

May/June 2023

6. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):

Assertion (A): Simulation models are custom built for the specific problem to be solved.

Reason (R): Unlike linear programming models, simulation models cannot simply restate values for an objective function and constraints in a variety of situations.

Choose the correct option:

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2022

7. Which of the following is NOT an attribute or capability of simulation?
- (A) It evaluates a system's response to changes in its structure
 - (B) It completely eliminates all assumptions to provide absolute certainty
 - (C) It can be undertaken before the real system is operational
 - (D) It aids in the design of the system by testing operating rules

May/June 2010

8. Which of the following is an accepted approach for the discrimination of run length in a simulation model?
- (A) Reaching equilibrium where simulated data matches historical data
 - (B) Running the model solely for a period not exceeding 24 simulated hours
 - (C) Terminating the run length immediately after the first statistical anomaly is detected
 - (D) Continuing the run infinitely until manual intervention forces a hardware timeout

Oct/Nov 2011

9. Consider the following scenarios:
- I. Where the size and complexity of the problem make other techniques difficult.

II. Where personnel need to be trained by facing real road situations to avoid accidents.

III. Where a problem can be solved simply through direct trial-and-error on the live system.

Which of the above scenarios make simulation an appropriate exercise?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

May/June 2005

10. Regarding the approach to determine run length by setting it long enough to get large samples, which of the following is an accurate assessment?
- (A) This approach is highly problematic because computers cannot handle large sample processing
 - (B) This presents no problem as the model can be run efficiently in computers
 - (C) This approach is completely invalid unless the time increment is rigidly fixed
 - (D) This is strictly reserved for simulations that explicitly exclude a simulated clock

Oct/Nov 2025

11. In which of the following management areas is simulation extensively used?
- (A) Queuing problems, inventory problems, layout, and maintenance problems
 - (B) Specialized driving lessons and complex traffic jam management models
 - (C) Detailed railroad operations and aircraft maintenance scheduling plans
 - (D) Auditing of fixed asset ledgers and internal financial control systems

May/June 2018

12. Why is simulation particularly desirable when conducting experiments on the real system would disrupt ongoing activities?
- (A) Because simulation strictly limits the problem variables to fixed increments only
 - (B) Because real system disruptions are necessary to calculate accurate mathematical minimums
 - (C) Because simulation tests changes on a model instead of the physical system
 - (D) Because the real system inherently lacks

variables, are implicitly assigned a value of zero. If slack variables 'n' and 'p' do not appear in the basic variable column of the optimum tableau, it means they are non-basic and their final calculated values in the optimal solution are zero.

46. (D) I, II, and III

Each simplex tableau provides critical information about the current state of the optimization. It lists the variables currently in the solution (basic variables), the total profit associated with that specific production mix, and the Z-row coefficients. These coefficients indicate which non-basic variable could most effectively increase profit if brought into the basis during the next iterative step.

47. (A) Both Statement I and Statement II are true
The logic used to solve minimization problems in linear programming is nearly identical to that of maximization problems. Both use the simplex iterative process, tableau updates, and ratio calculations. The primary difference lies in the objective, where the goal is to reach the lowest possible value of the cost function rather than the highest possible value of a profit function.

48. (A) Both Statement I and Statement II are true
Updating the simplex tableau requires two primary formulas. The new pivot row is created by dividing every element of the current pivot row by the pivot entry. All other rows, including the Z-row, are then updated by subtracting the product of the pivot entry in that specific row and the newly calculated pivot row from the current row values.

49. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

In a maximization problem, the simplex method reaches an optimal solution when all coefficients in the Z-row are zero or positive. Negative coefficients represent opportunities to increase profit. Once no negative values remain, it is mathematically certain that any further changes to the product mix will not result in a higher objective function value, thus the iteration process terminates.

50. (C) p, because its ratio is $10/1 = 10$

The replacing variable is determined by finding the row with the smallest non-negative ratio. The ratios are calculated as follows: for 'm' it is $120/6 = 20$; for 'n' it is $72/6 = 12$; and for 'p' it is $10/1 = 10$. Since 10 is the smallest value among these, 'p' is selected as the variable to be replaced.

51. (D) A zero slack variable value indicates resource abundance

A zero value for a slack variable in the optimum tableau indicates that the corresponding resource is fully utilized and exhausted, making it a scarce or binding resource. Resource abundance is indicated by a positive slack variable value, which means there is leftover or unused capacity. Therefore, equating a zero slack value with resource abundance is factually incorrect in linear programming.

52. (D) P-3, Q-2, R-4, S-1

The entering variable is identified by its potential to increase profit significantly. The replacing variable is determined by the smallest positive ratio calculation. The pivot entry is located at the intersection of the pivot column and pivot row. Slack variables are utilized to convert inequality constraints into standard equations. Understanding these terms is vital for performing iterative simplex calculations correctly.

53. (C) Maximise $Z = 2B + 4C$

To maximize the total profit, an objective function must be formulated using the individual profit contributions of each product. Given that cricket bats yield Rs. 2 and chess sets yield Rs. 4, the objective function is Maximise $Z = 2B + 4C$. This equation represents the total profit earned from producing any specific quantity of bats and sets.

54. (C) Potential improvement, guiding the choice of the entering variable

In minimization problems, the interpretation of the Z-row coefficients is reversed compared to maximization. A positive value in the Z-row indicates that bringing that variable into the solution will decrease the objective function value (cost). Thus, positive coefficients guide the selection of the entering variable, signaling

spreadsheet, the relationships between different time periods and financial constraints can be modeled linearly. This structure allows the simplex method to optimize resource allocation over time, ensuring that both short-term and long-term financial objectives are addressed simultaneously.

73. (B) I, III, IV, and V only

Linear programming models handle both maximization and minimization efficiently. Simplex tableaus provide detailed insights into resource scarcity or abundance. Advanced applications include multi-period budgeting and sensitivity analysis. However, graphic methods are notably inefficient for problems with many constraints, as they are primarily limited to two-variable visualizations. Goal programming successfully integrates multiple targets directly into the objective function.

74. (B) I, II, III, and V only

Linear programming optimally allocates limited resources and requires linear relationships between variables. It also assumes that variables are non-negative and divisible. Furthermore, the model can be adapted to incorporate probabilities when dealing with demand uncertainty. The graphic approach is not efficient for 10-12 variables; it is generally restricted to two or three, while the simplex method handles larger problems.

75. (A) I, II, and IV only

Linear programming can be applied to financial budgeting similarly to profit planning. The process involves representing accounts in a matrix format within spreadsheets. This methodology specifically enables managers to perform multi-period budgeting, coordinating financial decisions across several consecutive intervals. It does not restrict budgeting to a single period, nor does it typically use goal programming for basic trial balances.

76. (D) Using probabilities while formulating the problem

When a firm faces uncertainties in demand, the most effective approach within the linear programming framework is to incorporate probabilities into the formulation. This allows the model to account for different potential

outcomes and their likelihoods, providing a more robust solution than assuming fixed deterministic values. This probabilistic approach helps in making informed decisions under risk while maintaining the optimization structure.

77. (B) I, II, and IV only

In minimization problems, the procedural steps remain the same as maximization, but the goal is to find the lowest value. A positive Z-row coefficient, rather than a negative one, indicates that bringing a variable into the solution will improve the cost. Therefore, the criteria for selecting the entering variable must be adjusted to reflect this change in objective.

78. (B) When there are uncertainties in demand, we can use probabilities while formulating the problem

Although linear programming often assumes deterministic constraints, it is not rendered useless by uncertainty. Managers can address demand fluctuations by integrating probabilities directly into the mathematical formulation of the problem. This adaptation allows the linear model to optimize for expected values or various scenarios, maintaining its utility for financial and operational decision-making despite the presence of market risks.

79. (B) I, III, and IV only

The simplex method follows clear logical rules: the entering variable is the one with the most negative Z-row coefficient in a maximization problem. The pivot entry is found at the intersection of the pivot column and row. Optimality is reached when no negative Z-row values remain. The replacing variable, however, is chosen based on the smallest positive ratio.

80. (A) Only I and II

Slack variables are fundamental to the simplex method, serving to convert linear inequalities into equations by representing unused capacity. If these variables have positive values in the final optimal tableau, they signify unutilized resources. However, they do not take negative values in the initial tableau; they must always be non-negative to satisfy the feasibility requirements of the model.

the most significant impact on overall financial performance.

64. (A) Only I and II

For effective financial budgeting using linear programming, accounts and their relationships are typically represented in a matrix format. This structure is most efficiently executed within a spreadsheet environment. Contrary to restricting planning, this matrix-based representation is highly supportive of multi-period budgeting, allowing for the integration of financial flows and constraints over several consecutive time intervals.

65. (C) LP cannot incorporate probabilities under any circumstances

While standard linear programming models assume deterministic values, it is incorrect to say they cannot incorporate probabilities. In situations with demand uncertainty, probabilities can be integrated during the formulation of the objective function or constraints to handle risk. Linear programming remains a flexible tool for sensitivity analysis, goal programming, and multi-period financial budgeting across various complex business scenarios.

66. (A) II, III, IV, I

The systematic application of linear programming follows a specific sequence. First, the objective function and linear constraints must be established. Second, these constraints are converted into equations using slack variables. Third, the simplex method is used to perform iterations until an optimal solution is reached. Finally, the resulting optimum tableau is interpreted to determine resource status.

67. (C) P-3, Q-4, R-2, S-1

Sensitivity analysis measures changes in profit relative to cost changes. Marginal effects analysis evaluates how constraints impact liquidity and profitability. Goal programming incorporates multiple targets into a single objective function. Financial budgeting utilizes matrix representations in spreadsheets for multi-period planning. Each application leverages the mathematical structure of linear programming to provide specific strategic insights for management decision-making.

68. (B) It replaces the objective function entirely with qualitative matrices

Goal programming is a quantitative mathematical technique, not a qualitative one. It does not replace the objective function with matrices; rather, it modifies the objective function to include multiple targets or goals. It remains a special type of linear programming where managers aim to minimize deviations from these predefined goals while still operating within the system's linear constraints.

69. (B) I, II, and IV only

In graphical optimization, feasible points lie on or below the constraint lines within the first quadrant. The overlapping constraints form a common polygonal area. While any point in the polygon is feasible, not all maximize profit equally; only the extreme points are candidates for the optimal solution. The process involves identifying these vertices to find the absolute maximum profit.

70. (D) I, II, III, IV, and V

Linear programming involves various technical concepts including objective functions for goals and basic feasible solutions for valid points. Shadow prices represent resource values, while substitution rates show how variables trade off. Artificial variables are used to find initial solutions when standard slack variables are insufficient. All these terms are foundational elements studied within the linear programming framework.

71. (A) I and II only

Sensitivity analysis helps managers understand how changes in inputs, like labor availability or unit costs, affect the final profit. It can quantify the percentage change in profit for a specific percentage change in cost. However, while it helps analyze uncertainty, it does not completely eliminate demand uncertainties; it merely provides a framework for assessing their potential impacts on the solution.

72. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Linear programming is an effective tool for multi-period financial budgeting. By representing accounts in a matrix form within a

- Q. 55 (Probability 0.2, starting after 39)
 R. 65 (Probability 0.3, starting after 59)
 S. 75 (Probability 0.1, starting after 89)
 List II: (Random Number Interval)

1. 60-89
 2. 90-99
 3. 10-39
 4. 40-59
- (A) P-3, Q-4, R-1, S-2
 (B) P-4, Q-3, R-2, S-1
 (C) P-1, Q-2, R-4, S-3
 (D) P-2, Q-1, R-3, S-4

May/June 2019

20. Which of the following is NOT listed as a disadvantage of simulation?
 (A) It is extremely time-consuming
 (B) It demands computer experience and expertise on the part of the user
 (C) It feels more like an art than a science due to few guiding principles for decision making
 (D) It provides exact robust math info without relying on intuitive judgments

Oct/Nov 2016

21. An inventory analyst is conducting a simulation for a product's demand over 20 days. For Day 3, the analyst chooses the random number 89. According to the chance process where the interval 60-89 corresponds to a probability of 0.3, what is the daily demand derived for Day 3 based on the simulated intervals?
 (A) 45
 (B) 55
 (C) 65
 (D) 75

May/June 2022

22. An analyst is developing a simulation model for stock market fluctuations. However, the analyst finds that there are almost no strict theoretical principles dictating the exact length and number of simulation runs needed for desired accuracy. Instead, the analyst must rely heavily on subjective, intuitive judgments. Which characteristic disadvantage of simulation does this scenario primarily illustrate?
 (A) Simulation is generally not available to handle abstract financial problems
 (B) Simulation often operates more like an art

- than a strict science
 (C) Simulation requires the absolute elimination of all dynamic variables
 (D) Simulation mathematically restricts all forms of intuitive thinking

Oct/Nov 2005

23. A milk vendor assesses the daily ordering policy. For a given simulated day, the random number generated results in a daily demand of 45 litres. The quantity ordered for that day was 35 litres. Assuming all unsold packets are perishable and thrown away, what is the exact quantity sold for this day?
 (A) 10 litres
 (B) 35 litres
 (C) 45 litres
 (D) 80 litres

May/June 2011

24. When an existing mathematical model proves to be not robust enough to provide actionable information on all the variables and factors of interest, what is the most appropriate alternative methodological approach?
 (A) Utilize simulation techniques to encompass the complex variables dynamically
 (B) Revert entirely to direct physical experiments on the live operational system
 (C) Apply a fixed linear programming restatement to forcefully bridge the gap
 (D) Discard and ignore the specific factors of interest that the math model cannot handle

Oct/Nov 2014

25. Which of the following assumptions is INCORRECT regarding the calculation mechanics in the provided simulation example?
 (A) Sold quantity always equals demand regardless of order
 (B) Profit is total revenue from sales minus total cost of stock ordered
 (C) Unsold milk packets are considered perishable and are discarded daily
 (D) The quantity sold will be the lesser of the daily demand or quantity ordered

May/June 2013

26. Which statement incorrectly characterizes the guiding principles surrounding the construction and length of simulation runs?

CHAPTER 09

Simulation

Oct/Nov 2015

1. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):

Assertion (A): The intrinsic ability to deal effectively with dynamic systems represents a core distinguishing feature of simulation models compared to other general problem-solving tools.

Reason (R): Dynamic system modeling allows the simulation to track and react systematically to changes over time, utilizing required time incrementing procedures like a simulated clock.

Choose the correct option:

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2021

2. Consider the following statements regarding time incrementing procedures:

- I. In the fixed time increment method, the system is scanned at each point in clock time to determine if any event has happened.
- II. In the variable time incremental method, clock time is advanced by the amount required to initiate the next event.

Which of the above statement(s) is/are correct?

- (A) Only Statement I is correct
- (B) Only Statement II is correct
- (C) Both Statement I and II are correct
- (D) Neither Statement I nor II is correct

Oct/Nov 2007

3. How does simulation assist in predicting actual behaviour of a system?

- (A) By mimicking real-life conditions or events
- (B) By substituting system variables with historical averages
- (C) By converting subjective parameters into a static equation
- (D) By removing the necessity for any underlying assumptions

May/June 2014

4. A bank wishes to simulate the arrival of VIP customers to a specialized teller. Based on historical data, VIP arrivals are highly infrequent, sometimes occurring hours apart with no predictable regularity. Which time incrementing procedure should the bank's simulation model utilize to efficiently study this system?

- (A) Fixed time increments tracking every single minute of the working day
- (B) Stage rehearsal forecasting without a simulated clock
- (C) Arithmetic linear programming that resets the clock entirely
- (D) Variable time increments advancing the clock to the next event

Oct/Nov 2018

5. Consider the following statements regarding the nature of simulations:

- I. Simulations are useful tools that allow experiments without actual exposure or risk.
- II. Simulations can be a gross simplification of reality and are only as good as their underlying assumptions.

Which of the above statement(s) is/are correct?

- (A) Only Statement I is correct
- (B) Only Statement II is correct
- (C) Both Statement I and II are correct
- (D) Neither Statement I nor II is correct

‘m’ represents the unused hours in Workshop 1 for any production mix.

- 36.** (A) They are working to their full capacity
Slack variables ‘n’ and ‘p’ represent the unused capacity in Workshops 2 and 3 respectively. When these variables have a value of zero in the solution, it signifies that there is no idle time remaining in those workshops. Consequently, both workshops are operating at their maximum available capacity, and any further production would require additional hours from these specific resources.
- 37.** (A) The variable with the most negative coefficient
In a maximization problem, the Z-row in the simplex tableau shows the potential change in profit for each unit of a non-basic variable brought into the solution. A negative coefficient indicates that increasing that variable will increase total profit. The variable with the most negative coefficient is chosen as the entering variable because it provides the largest unit increase in profit.
- 38.** (B) 0
During an iteration of the simplex method, once a variable like C is selected as the entering variable and its pivot entry is processed, it becomes a basic variable. In the updated tableau, the coefficient of any basic variable in the Z-row must be zero. This signifies that the variable has already been optimized and incorporated into the current profit calculation.
- 39.** (D) I, II, III, and IV
The simplex procedure follows a logical sequence of steps to reach an optimal solution. It starts by setting up the initial tableau and identifying the entering variable using the most negative Z-row coefficient. Then, a pivot entry is used to create a new pivot row, followed by updating all other rows. This iterative process continues until the optimality condition is satisfied.
- 40.** (D) Pivot Row - Corresponds to the smallest positive ratio
In simplex terminology, the pivot row is identified by the smallest positive ratio, which determines which variable leaves the solution. The entering variable is the one with the

most negative coefficient in the Z-row during maximization. The initial tableau represents the starting point, usually at the origin, and the Z-equation represents the objective function transformed for the tableau structure.

- 41.** (B) The historical depreciation of machinery used in production
Linear programming is an optimization and planning tool used to analyze future resource allocation and profitability. It helps determine sensitivity to cost changes, marginal effects of constraints, and budgeting via matrix representations. Historical depreciation is a past accounting record of asset value reduction and is not a variable or constraint typically used in the forward-looking optimization models of linear programming.
- 42.** (C) Reversing the signs of all coefficients in the Z-row automatically
Forming a new tableau involves specific algebraic steps: calculating the new pivot row by dividing by the pivot entry and updating other rows using the pivot formula. There is no rule for automatically reversing all signs in the Z-row. Instead, Z-row values are updated based on the standard formula to reflect the new profit status after the basis change.
- 43.** (B) n (ratio 6)
The replacing variable is chosen based on the smallest positive ratio in the ratio column. Comparing the calculated ratios of 15 for ‘m’, 6 for ‘n’, and an undefined value for ‘p’ (due to division by zero), the value 6 is the smallest positive figure. Therefore, ‘n’ is the variable that must be replaced by the entering variable.
- 44.** (D) $Z - 2B - 4C - 0m - 0n - 0p = 0$
To prepare the objective function for the initial simplex tableau, all variables are moved to the left side of the equation. For the function Maximise $Z = 2B + 4C$, the standard format becomes $Z - 2B - 4C = 0$. Slack variables are included with coefficients of zero because they do not contribute to profit in the objective function.
- 45.** (C) Their values are zero
In any simplex tableau, variables that are not part of the basic solution, known as non-basic

any controllable variables entirely

Oct/Nov 2009

13. Match the application area in List I with its corresponding operational domain in List II:

List I: (Application Area)

P. Aircraft

Q. Railroad

R. Stock

S. Facility

List II: (Operational Domain)

1. Operations

2. Maintenance scheduling

3. Layout

4. Market

(A) P-2, Q-1, R-4, S-3

(B) P-1, Q-2, R-3, S-4

(C) P-3, Q-4, R-1, S-2

(D) P-4, Q-3, R-2, S-1

May/June 2015

14. Simulation is highly desirable when experiments on the real system exhibit all of the following challenging characteristics EXCEPT:

(A) They would disrupt ongoing activities

(B) They would be too costly to undertake

(C) They permit perfect control over all key variables

(D) They do not permit exact replication of events

Oct/Nov 2006

15. Consider the following recognized applications of simulation methods:

I. Railroad operations

II. Facility layout

III. Foreign exchange market

IV. Aircraft maintenance scheduling

V. Stock market

Which of the above statement(s) is/are correct?

(A) I, II, and III only

(B) II, IV, and V only

(C) I, III, IV, and V only

(D) I, II, III, IV, and V

May/June 2024

16. Consider the following conditions under which simulation is preferable:

I. A mathematical model is not available to handle the problem.

II. A mathematical model is too complex and

arduous to solve.

III. A mathematical model is beyond the capability of available personnel.

IV. A mathematical model is not robust enough to provide information on all factors of interest.

Which of the above statements correctly validate the preference for simulation?

(A) I, II, and III only

(B) II, III, and IV only

(C) I, III, and IV only

(D) I, II, III, and IV

Oct/Nov 2023

17. Why is simulation often used in conjunction with traditional statistical and management techniques?

(A) Because statistical techniques alone cannot process fixed time increments

(B) Because size or complexity makes other techniques difficult or impossible

(C) Because simulation replaces the need for any mathematical formulation or data collection

(D) Because management techniques fail to account for chronological data ordering

May/June 2008

18. Which of the following is considered a primary operational disadvantage of utilizing simulation?

(A) It provides absolute certainty that complex problems will be cast without any inherent flaws

(B) It does not require any computer experience or expertise, leading to poorly designed models

(C) Flaws in complex problem casting may be easily overlooked by the user

(D) It actively restricts the number of simulation runs strictly to a single computational iteration

Oct/Nov 2012

19. Based on a generic probability distribution for demand generation using random numbers, match the given Demand Per Day in List I with its corresponding Random Number Interval in List II, assuming intervals scale sequentially from 00 up to 99 across varying probabilities:

List I: (Demand Per Day)

P. 45 (Probability 0.3, starting after 09)

that the current solution is not yet optimal and can be further reduced.

- 55.** (A) B becomes the entering variable

In a maximization problem's simplex tableau, any negative value in the Z-row indicates that profit can be increased by bringing that variable into the solution. Since variable B has a coefficient of -2, it is identified as a candidate for improvement. Specifically, B will be selected as the entering variable for the next iteration to enhance the overall objective value.

- 56.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

The pivot entry is the element located at the intersection of the pivot column and pivot row. It serves as the divisor for the entire pivot row to create the new pivot row in the next tableau. This transformation is a necessary step in Gauss-Jordan elimination, which the simplex method uses to move between basic feasible solutions effectively.

- 57.** (A) Workshop 1 is an abundant resource and not fully utilized

A positive value for a slack variable in the final solution represents the amount of unused resource. In this scenario, $m = 6$ means that there are 6 hours of unused capacity in Workshop 1. Since some of the resource remains available after reaching the optimal production plan, Workshop 1 is categorized as an abundant rather than a scarce resource.

- 58.** (A) Ratio calculation - Computed by dividing Solution column by Z-row coefficients

In the simplex method, the ratio column is calculated by dividing entries in the Solution column by the corresponding positive entries in the entering variable's column, not by the Z-row coefficients. Z-row coefficients are used only to select the entering variable. The ratio calculation is specifically designed to determine which current basic variable hits zero first, ensuring physical feasibility.

- 59.** (C) Its corresponding slack variable has a positive value

An abundant resource in linear programming is one that is not fully exhausted by the optimal

production plan. Mathematically, this is indicated by its slack variable having a positive value in the final optimum tableau. This positive slack represents the specific amount of capacity or material that remains idle or unused after achieving the maximum possible profit or minimum cost.

- 60.** (B) C, due to its having the most negative coefficient

For a maximization problem, the entering variable is the one that offers the greatest potential increase in the objective function per unit. This is represented by the most negative coefficient in the Z-row of the tableau. Since -4 (for C) is more negative than -2 (for B), variable C is selected as the entering variable for the first iteration.

- 61.** (C) It incorporates goals into the objective function to aid decisions

Goal programming is a specialized branch of linear programming used when a firm has multiple, potentially conflicting objectives. Instead of optimizing a single value like profit, it incorporates various desired goals directly into the objective function. This approach is particularly useful in complex financial planning where managers must balance profit targets with other organizational requirements and linear constraints.

- 62.** (A) P-4, Q-2, R-3, S-1

Divisibility refers to the assumption that decision variables can take fractional values. Non-negativity means variables must be zero or positive. Deterministic implies that all parameters are known with certainty. Proportionality indicates that all equations are linear, meaning the change in output is strictly proportional to the change in input throughout the entire range of production activity in the model.

- 63.** (A) Profit

Sensitivity analysis in linear programming is used to determine how changes in model parameters affect the final outcome. Specifically, it can be used to calculate the percentage change in the total profit resulting from a 1% change in unit costs. This provides management with valuable insights into which specific costs have

- (A) There are extremely few principles to guide the user in making decisions on what specifically to include in the model
- (B) The process of deciding the optimal length and exact number of simulation runs is heavily structured with rigid scientific laws
- (C) The entire process often necessitates the user to rely extensively on their own intuitive judgments
- (D) In spite of widespread and diverse applications, designing an effective simulation often feels more like an art than an exact science

Oct/Nov 2019

27. In a simulation comparing two ordering methods, the new method dictates a constant ordered quantity of 55 litres. If the daily demand generated by a random number is 75 litres, and the profit formula uses a selling price of Rs. 36 and a cost price of Rs. 32, what is the profit under this new method for the given day?
- (A) Rs. 220
 - (B) Rs. 260
 - (C) Rs. 420
 - (D) Rs. 940

May/June 2007

28. Identify the INCORRECT pairing regarding the structural disadvantages and limitations of simulation:
- (A) Skill limitation – Demands extensive computer experience and expertise from the end user
 - (B) Resource limitation – Executing comprehensive models is generally highly time-consuming
 - (C) Modeling methodology – Relies on highly rigid, universally proven scientific principles to guide the exact number of simulation runs needed
 - (D) Complexity handling – Structural flaws in core assumptions can be easily overlooked due to formatting casting difficulties

Oct/Nov 2024

29. After completing a simulation, an outlet owner finds that the average sales according to an old method is 50 litres, while the average sales under a new method is 50.5 litres. The

average order is 55.5 litres under the old method and 55 litres under the new method. What conclusion can be drawn regarding the comparative profitability?

- (A) Profitability decreases under the new method because average sales are lower than the average order
- (B) Profitability improves under higher average sales and a lower average order
- (C) Profitability remains completely unaffected as both methods yield sales below the average demand
- (D) The old method is definitively superior as it dynamically tracks the previous day's demand

May/June 2017

30. Consider the following conditions where simulation is noted as highly desirable when physical experiments on the real system:
- I. Require a vast amount of observations over an extended temporal period.
 - II. Permit complete, isolated control over all key system variables.
 - III. Would be prohibitively too costly to undertake physically.
 - IV. Would severely disrupt ongoing regular operational activities.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III only
 - (B) I, III, and IV only
 - (C) II, III, and IV only
 - (D) I, II, III, and IV

Oct/Nov 2013

31. In the context of a simulation model, what is the role of relevant controllable and uncontrollable variables?
- (A) They restrict the execution of logical processes manually
 - (B) They serve exclusively as static parameters that bypass the simulated clock
 - (C) They prevent the simulated data from corresponding to historical frequencies
 - (D) They influence performance and determine if system objectives are achieved

May/June 2025

32. Consider the following characteristics that outline the broader functional definitions of simulation:

- I. It acts out or mimics probable real-life environmental conditions.
- II. It can be designed to find the underlying causes of past occurrences.
- III. It can effectively forecast the future systemic effects of assumed circumstances.
- IV. It fundamentally requires solving identical linear programming iterations across models.
- V. It acts as a highly useful tool facilitating experiments without actual exposure or risk.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV only
- (B) I, II, III, and V only
- (C) II, III, IV, and V only
- (D) I, III, IV, and V only

Oct/Nov 2021

- 33.** Arrange the following stages of the Simulation Methodology in their correct sequential order:

1. Run the Simulation
2. Define Problem
3. Evaluate Results
4. Construct the Simulation Model
5. Specify Values of Parameters & Variables

- (A) 2, 4, 5, 1, 3
- (B) 2, 5, 4, 3, 1
- (C) 4, 2, 5, 1, 3
- (D) 2, 4, 1, 5, 3

May/June 2006

- 34.** Which of the following correctly describes an inherent limitation when utilizing simulation models for systemic analysis?

- (A) They are completely independent of their foundational mathematical algorithms
- (B) They accurately and consistently eliminate the necessity for time incrementing procedures entirely
- (C) They are limited by their assumptions and may simplify reality
- (D) They strictly restrict problem definition exclusively to controllable decision variables

Oct/Nov 2017

- 35.** Which of the following incorrectly pairs a stage in the simulation methodology with its corresponding key factor?
- (A) Specify Values of Parameters & Variables

- Determine statistical tests
- (B) Define Problem – Define objectives and variables
- (C) Construct the Simulation Model – Specification of decision rules and time incrementing procedure
- (D) Evaluate Results – Compare with other information

May/June 2012

- 36.** An operations manager simulates a manufacturing assembly line. The simulation proceeds from one time period to another in strict increments of exactly 1 hour. At each hour mark, the system is rapidly scanned, events are simulated if they triggered, and clock time is advanced uniformly by one unit even if zero events took place. What specific procedure is the manager actively applying?

- (A) Hop-jump fashion modeling
- (B) Variable time incremental method
- (C) Direct linear programming resolution
- (D) Fixed time incremental method

Oct/Nov 2010

- 37.** Consider the following elements required when constructing a simulation model:

- I. Decision rules
- II. Probability distribution
- III. Time incrementing procedure

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

May/June 2009

- 38.** Which of the following is an INCORRECT characteristic regarding the variable time incremental method?

- (A) Clock time is advanced explicitly by the amount required to initiate the subsequent event
- (B) It is utilized prominently when events occur infrequently and happen in a hop-jump fashion
- (C) It removes the fundamental need for a simulated clock in the model
- (D) It can be effectively utilized when modeling inventory orders placed only when stock diminishes to a certain minimum level

Oct/Nov 2008

39. Following from the logistics company scenario testing dispatching schedules against fluctuating daily traffic delays, what do the 'daily traffic delays' represent in the problem definition?
- (A) The predetermined starting condition
 - (B) The uncontrollable variable
 - (C) The controllable variable
 - (D) The fixed decision rule

May/June 2020

40. Consider the following elements involved in the structured methodology of constructing a simulation model and specifying analytical values:
- I. Parameters
 - II. Variables
 - III. Starting conditions
 - IV. Run length
- Which of the above statement(s) is/are correct?
- (A) I, II, and III only
 - (B) II, III, and IV only
 - (C) I, III, and IV only
 - (D) I, II, III, and IV

Oct/Nov 2020

41. What is an obligatory requirement under both fixed time increments and variable time increments in simulation models?
- (A) A simulated clock
 - (B) A variable time delay
 - (C) A static probability table
 - (D) A continuous mathematical equilibrium

May/June 2016

42. What is the primary definition of simulation?
- (A) An exact mathematical formula that perfectly replicates real-life environments
 - (B) A way of studying effects of changes in the real system through models
 - (C) A linear programming model used exclusively for optimizing objective functions
 - (D) A continuous physical system that cannot be represented by logical processes

Oct/Nov 2007

43. Under what specific circumstances is it most appropriate to follow the variable time increment method rather than the fixed time method?

- (A) When events are infrequent and occur in a hop-jump fashion
- (B) When events occur with perfect predictability and regularity
- (C) When the simulated clock needs to be disabled to save computing power
- (D) When the simulation must proceed strictly day-by-day without skipping any intervals

May/June 2023

44. A simulation may be performed through which of the following mechanisms?
- (A) Utilizing qualitative surveys to project future statistical variances
 - (B) Eliminating dynamic systems and replacing them with static databases
 - (C) Solving equations, constructing physical models, or using graphics
 - (D) Applying rigid linear programming restatements across all scenarios

Oct/Nov 2018

45. Which of the following is considered one of the primary features that distinguishes simulation models from other models used for general problem-solving?
- (A) The ability to perfectly replicate all uncontrollable variables with absolute precision
 - (B) The ability to deal with dynamic systems
 - (C) The capacity to resolve objective functions linearly without decision rules
 - (D) The strict requirement of being mathematically arduous to solve manually

May/June 2011

46. Which of the following statements accurately describes the use of simulation in the financial world?
- (A) It eliminates the need for computer systems by relying entirely on stage rehearsals
 - (B) It is strictly reserved for evaluating models after the real system becomes fully operational
 - (C) It involves using a computer system to perform experiments on a model of a real system
 - (D) It actively manipulates the real live market to test systemic responses to structural changes

Oct/Nov 2015

47. Match the characteristic feature in List I with its corresponding simulation methodology concept in List II:

List I: (Feature)

P. Simulated Clock

Q. Custom built

R. Guideline, not rigid rules

S. Advance by amount required for next event

List II: (Concept)

1. Variable time increment method

2. Building and executing a model

3. Distinguishes simulation models from linear programming

4. Mandatory in both fixed and variable incrementing methods

(A) P-4, Q-3, R-2, S-1

(B) P-3, Q-4, R-1, S-2

(C) P-1, Q-2, R-3, S-4

(D) P-2, Q-1, R-4, S-3

May/June 2021

48. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):

Assertion (A): Simulations are highly useful tools that allow experiments without actual exposure or risk.

Reason (R): Simulations provide an exact, complex replica of reality without any simplifications.

Choose the correct option:

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2021

49. Which of the following statements about building and executing a simulation model is INCORRECT?

(A) Simulation models can be used in conjunction with traditional statistical and management techniques

(B) Building and executing a model strictly

follow rigid rules that cannot be deviated from

(C) Even if an optimal mathematical formula exists, a simulation run may still be necessary to determine its full effects

(D) Simulation models are considered custom built for the specific problem to be solved

May/June 2012

50. A commercial bank wishes to train its newly recruited foreign exchange dealers without exposing the bank to massive financial losses due to amateur trading errors. To achieve this, the bank sets up a virtual trading terminal that reflects real-time currency fluctuations. What is the primary objective of this exercise?

(A) To construct a physical stage rehearsal of the banking floor

(B) To determine exact linear constraints for daily operations

(C) To evaluate real-time system changes without financial risk

(D) To eliminate the unpredictable nature of markets via fixed increments

Oct/Nov 2014

51. Consider the following approaches to determine the run length of a simulation:

I. Run for a specified set period.

II. Set the run length long enough to get large samples.

III. Run the model till an equilibrium is achieved.

Which of the above statement(s) is/are correct?

(A) I and II only

(B) II and III only

(C) I and III only

(D) I, II, and III

May/June 2009

52. Consider the following areas where simulation methods are commonly applied:

I. Air Traffic control queuing

II. Assembly line scheduling

III. Risk modeling in finance area

IV. Foreign exchange market

Which of the above statement(s) is/are correct?

(A) I, II, and III only

(B) II, III, and IV only

(C) I, III, and IV only

(D) I, II, III, and IV

Oct/Nov 2010

53. A major hospital wants to test a new layout for its emergency room to improve patient flow. However, physically rearranging the emergency room for trial-and-error might severely compromise critical patient care operations. The hospital decides to use a computer simulation instead. Which specific advantage of simulation makes it highly desirable in this scenario?

(A) Experiments on the real system would require very few observations over a short time
 (B) Simulation eliminates the need for any expert personnel to run the computer model
 (C) The mathematical model for hospital layouts is typically very easy to solve manually
 (D) Experiments on the real system would disrupt ongoing activities

May/June 2024

54. Which of the following is NOT explicitly listed as an application of simulation methods?
 (A) Inventory reorder design
 (B) Assembly line scheduling
 (C) Direct tax legislative drafting
 (D) Risk modeling in finance area

Oct/Nov 2013

55. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):

Assertion (A): Simulation is considered desirable over real-system experimentation when isolating specific effects is required but exact event replication is impossible.

Reason (R): Experiments on the real system often do not permit exact replication of events, limiting the ability to control key variables identically across trials.

Choose the correct option:

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 (C) Assertion (A) is true, but Reason (R) is

false.

(D) Assertion (A) is false, but Reason (R) is true.

May/June 2005

56. A retail store manager wants to evaluate a daily ordering policy for perishable goods. The manager's current rule is to order the demand of the previous day, but they are considering a new rule based on the mean of the past 10 days. The manager uses a probability distribution to generate occurrences to evaluate both methods. What specific application of simulation is the manager performing?

(A) Inventory reorder design
 (B) Aircraft maintenance scheduling
 (C) Facility layout
 (D) Assembly line scheduling

Oct/Nov 2006

57. Consider the following conditions where experiments on the real system make simulation highly desirable:

I. Would disrupt ongoing activities
 II. Would be too costly to undertake
 III. Require many observations over an extended period of time
 IV. Do not permit exact replication of events
 V. Do not permit control over key variables
 Which of the above statement(s) is/are correct?

(A) I, II, III, and IV only
 (B) II, III, IV, and V only
 (C) I, II, IV, and V only
 (D) I, II, III, IV, and V

May/June 2013

58. In a simulation evaluating ordering rules for perishable goods, how is the mathematical representation of ordering the quantity demanded on the previous day expressed?

(A) Mean of the past 10 days
 (B) $D(n - 1)$
 (C) $(\text{Sold Quantity} \times p) - (\text{Ordered Quantity} \times c)$
 (D) $D(n + 1)$

Oct/Nov 2009

59. Consider the following recognized disadvantages of simulation:

I. It is time-consuming.
 II. It requires computer experience and

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expertise on the part of the user.

- III. There are very few principles to guide the user in making decisions on what to include in the model.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

May/June 2008

60. Arrange the following steps to develop daily demand occurrences in a simulation system in the correct sequential order:

1. Read the daily demand corresponding to the random number interval.
2. Calculate the quantity sold based on lesser of demand or quantity ordered.
3. Find the random number interval associated with the random number.
4. Choose a random number.

- (A) 4, 3, 1, 2
- (B) 1, 4, 3, 2
- (C) 3, 4, 2, 1
- (D) 4, 1, 3, 2

Oct/Nov 2016

61. Match the operational characteristic in List I to whether it fundamentally serves as an Advantage or a Disadvantage in List II:

List I: (Characteristic)

- P. Time consuming process
- Q. Useful when real system experiments are too costly
- R. Requires substantial computer expertise
- S. Preferable when a math model exceeds personnel capabilities

List II: (Type)

1. Advantage (Desirable condition)
2. Advantage (Preferable condition)
3. Disadvantage (Resource limitation)
4. Disadvantage (Skill limitation)

- (A) P-3, Q-1, R-4, S-2
- (B) P-4, Q-2, R-3, S-1
- (C) P-1, Q-3, R-2, S-4
- (D) P-2, Q-4, R-1, S-3

May/June 2018

62. An outlet owner is preparing to simulate demand for the next 20 days using a chance process. To initiate the simulation for the

first day (Day 1) using a rule where the order equals the demand of the previous day, what prerequisite step must the owner take for Day 0?

- (A) Generate a random number specifically for Day 0
- (B) Calculate the profit for Day 0 based on zero inventory
- (C) Assume a starting demand quantity for Day 0
- (D) Skip Day 1 and begin the simulation directly on Day 2

Oct/Nov 2022

63. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):

Assertion (A): Simulations of highly complex problems can sometimes execute under flawed assumptions that remain completely undetected by the user.

Reason (R): The impossibility of quantifying and the sheer difficulty of casting complex problems into a formal simulation format may cause these structural flaws to be easily overlooked.

Choose the correct option:

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2015

64. During a simulation run, an outlet owner ordered 65 litres of milk based on the chosen ordering rule. The daily demand turned out to be 45 litres. The selling price is Rs. 36 per litre and the cost price is Rs. 32 per litre. Utilizing the defined profit formula, what is the financial outcome for this simulated day?

- (A) Loss of Rs. 460
- (B) Profit of Rs. 180
- (C) Revenue of Rs. 1620
- (D) Cost of Rs. 2080

Oct/Nov 2023

65. Which of the following pairs of conceptual terms are heavily associated with the 'Specification of parameters' within the simulation methodology framework?
- (A) Fixed algorithmic assumptions and Gross mechanical simplifications
 - (B) Relevant controllable variables and Uncontrollable variables
 - (C) Stage rehearsal forecasting and Physical scale modeling
 - (D) Subjective intuitive judgments and Unstructured art sciences

May/June 2019

66. Consider the following statements evaluating ordering methods in a simulation:
- I. The old ordering rule computes the quantity ordered based on the quantity demanded on the previous day.
 - II. The new ordering rule computes the quantity ordered as a constant value based on the mean of the past 10 days.
- Which of the above statement(s) is/are correct?
- (A) Only Statement I is correct
 - (B) Only Statement II is correct
 - (C) Both Statement I and II are correct
 - (D) Neither Statement I nor II is correct

Oct/Nov 2017

67. Which of the following pairs correctly matches the time incrementing concept to its functional operational description?
- (A) Fixed increments – Clock advances uniformly regardless of events
 - (B) Fixed increments – Clock advances solely to initiate the next scheduled event
 - (C) Variable increments – The system is scanned at every exact point in clock time
 - (D) Variable increments – Eliminates the necessity for any simulated clock in models

May/June 2014

68. What is the ultimate analytical purpose of simulating the 20-day milk vendor scenario?
- (A) To prove that demand strictly follows a uniform mathematical distribution
 - (B) To eliminate the perishable nature of the unsold milk packets from the real system
 - (C) To ensure the random numbers correctly match historical datasets without deviation

- (D) To compare average profit between the old and new ordering rules

Oct/Nov 2012

69. Given below are two statements:
Statement I: Simulation is preferable when a strict mathematical model is beyond the processing capability of available personnel.
Statement II: Simulation is inherently flawed and completely guarantees exact replication of all real-world events when compared to mathematical modeling.
Which of the above statement(s) is/are correct?
- (A) Only Statement I is correct
 - (B) Only Statement II is correct
 - (C) Both Statement I and II are correct
 - (D) Neither Statement I nor II is correct

May/June 2010

70. How does problem definition for simulation fundamentally differ from problem definition for other analytical tools?
- (A) It relies entirely on the backward extrapolation of fixed historical datasets
 - (B) It mandates that all variables within the system must be entirely controllable by the decision maker
 - (C) It requires defining objectives and specifying relevant system variables
 - (D) It avoids defining starting conditions until the simulation reaches its equilibrium

Oct/Nov 2011

71. Consider the following statements regarding the established disadvantages of simulation:
- I. It is heavily time consuming.
 - II. It strictly requires computer operational experience.
 - III. It is universally impossible to cast simplistic linear problems into it.
 - IV. It provides very few principles to guide the user structurally.
 - V. It means intuitive judgments are frequently necessary.
- Which of the above statement(s) correctly reflect the structural disadvantages outlined?
- (A) I, II, IV, and V only
 - (B) II, III, IV, and V only
 - (C) I, II, III, and IV only
 - (D) I, II, III, IV, and V

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May/June 2025

- 72.** Consider the following stages in the Simulation Methodology process:
- I. Define Problem
 - II. Construct the Simulation Model
 - III. Evaluate Results
 - IV. Propose New Experiment
- Which of the above statement(s) is/are correct?
- (A) I, II, and III only
 - (B) II, III, and IV only
 - (C) I, III, and IV only
 - (D) I, II, III, and IV

Oct/Nov 2019

- 73.** Regarding the discrimination of run length in simulation execution, consider the following methodological aspects:
- I. It relies heavily on an exact science bound by rigid deterministic rules.
 - II. One accepted approach is running the model purely for a specified set period.
 - III. One accepted approach is setting the length long enough to guarantee large samples.
 - IV. One accepted approach is running continuously until an equilibrium state is achieved.
 - V. Simulated data running to equilibrium often corresponds directly to historical data frequencies.
- Which of the above statement(s) is/are correct?
- (A) I, II, III, and IV only
 - (B) II, III, IV, and V only
 - (C) I, III, IV, and V only
 - (D) I, II, IV, and V only

May/June 2017

- 74.** Which of the following correctly pairs a stage in the simulation methodology with its corresponding key factor?
- (A) Define Problem – Determine statistical tests
 - (B) Run the Simulation – Determine starting conditions and run length
 - (C) Evaluate Results – Specification of probability distribution
 - (D) Propose New Experiment – Define objectives and variables

Oct/Nov 2025

- 75.** Simulation is evaluated as highly preferable over static mathematical models in all the following scenarios, EXCEPT when the existing mathematical model:
- (A) Is perfectly robust enough to reliably provide information on all factors of interest
 - (B) Is simply not available to handle the intricacies of the problem
 - (C) Is inherently too complex and manually arduous to solve accurately
 - (D) Vastly exceeds the analytical capability of available operating personnel

May/June 2006

- 76.** Match the Simulation Methodology stage in List I with its specific Key Factor in List II:
- List I: (Methodology Stage)
- P. Define Problem
 - Q. Construct the Simulation Model
 - R. Run the Simulation
 - S. Evaluate Results
- List II: (Key Factor)
1. Determine starting conditions and run length
 2. Determine statistical tests
 3. Define objectives and variables
 4. Specification of variables, parameters, and decision rules
- (A) P-3, Q-4, R-1, S-2
 - (B) P-4, Q-3, R-2, S-1
 - (C) P-3, Q-1, R-4, S-2
 - (D) P-1, Q-2, R-3, S-4

Oct/Nov 2024

- 77.** A maintenance supervisor simulates the breakdown schedule of a fleet of delivery trucks. Breakdowns do not occur regularly; they happen sporadically. To save computational time, the simulation skips ahead immediately to the exact moment the next breakdown is mathematically scheduled to initiate, bypassing the empty time in between entirely. What structural method is the supervisor utilizing?
- (A) Fixed time uniform increments
 - (B) Variable time increments advancing the clock to the next event
 - (C) Stage rehearsal event forecasting procedure without a clock
 - (D) Mathematical equilibrium uniform

tracking for static systems

May/June 2020

78. A logistics company aims to maximize its delivery efficiency. It sets up a simulation to test different dispatching schedules against fluctuating daily traffic delays. In this problem definition, what does the 'dispatching schedule' primarily represent?
- (A) The uncontrollable variable
 - (B) The simulated clock increment
 - (C) The controllable variable under the control of the decision maker
 - (D) The statistical test outcome

Oct/Nov 2008

79. Consider the following foundational concepts of simulation modeling:
- I. The imitation of some real thing or physical/operational process.
 - II. Mimicking an actual or probable real-life condition to find the underlying cause of a past occurrence.
 - III. Forecasting the prospective future effects stemming from assumed circumstances or variables.
- Which of the above statement(s) correctly define its operational scope?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

May/June 2022

80. Which of the following statements is correct regarding the fundamental representative nature of a simulation model?
- (A) It must strictly avoid utilizing any logical processes
 - (B) It cannot be executed manually under any circumstances
 - (C) It requires the absolute elimination of the dynamic properties of the real system
 - (D) It must represent system elements via arithmetic, analog, or logical processes

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ANSWERS

1. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Simulation models are unique because they effectively handle dynamic systems. This capability allows the model to track and react systematically to changes over time. By using a simulated clock, the model manages required time incrementing procedures. This temporal tracking ensures that the simulation accurately reflects how a system evolves, unlike many static problem-solving tools used for general management tasks.
2. (C) Both Statement I and II are correct
The fixed time increment method involves scanning the system at every point in clock time to check for events. Conversely, the variable time incremental method advances the clock specifically by the amount needed to reach the next scheduled event. Both methods are standard procedures used in simulation to manage how time progresses within a modeled environment for complex systemic analysis.
3. (A) By mimicking real-life conditions or events
Simulation assists in predicting actual behavior by mimicking real-life conditions or events within a controlled environment. This process involves creating a model that replicates the logical and physical characteristics of the system. By acting out these probable scenarios, the simulation provides insights into how the real system will likely perform under various assumed circumstances and specific operational structural changes.
4. (D) Variable time increments advancing the clock to the next event
For systems where events occur infrequently and at unpredictable intervals, the variable time increment procedure is the most efficient choice. This method advances the simulated clock directly to the next scheduled event, bypassing periods of inactivity. This approach saves computational resources and time compared to fixed increments, which would require scanning many intervals where no specific arrivals actually occur.
5. (C) Both Statement I and II are correct
Simulations serve as highly useful tools by allowing users to conduct experiments without facing actual physical exposure or financial risk. However, these models often represent a gross simplification of reality to remain manageable. The validity of the results depends entirely on the underlying assumptions made during construction. Therefore, simulations are both a safe experimental environment and simplified mathematical representations.
6. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Simulation models are specifically custom built to solve particular problems rather than being general-purpose applications. Unlike linear programming, where one can simply restate values for objective functions and constraints across different situations, simulation requires unique logic for each case. This specific tailoring allows the model to address the unique variables and decision rules inherent to the individual problem being solved.
7. (B) It completely eliminates all assumptions to provide absolute certainty
While simulation is a powerful tool for testing changes and designing systems before they are operational, it does not provide absolute certainty or eliminate assumptions. Simulation models are inherently based on assumptions and often simplify complex realities. The effectiveness of the model is limited by these foundational premises, and results are only as reliable as the logical inputs provided.
8. (A) Reaching equilibrium where simulated data matches historical data
An accepted approach for determining the appropriate run length in a simulation is continuing until the model reaches equilibrium. At this stage, the simulated data starts to

stabilize and reflect the steady-state behavior of the system. Achieving equilibrium ensures that the model has run long enough to produce stable, representative results that are statistically significant for the analysis being conducted by researchers.

9. (A) I and II only

Simulation is an appropriate exercise when the size and complexity of a problem make traditional techniques difficult to apply. It is also highly effective for training personnel in high-risk situations, such as driving, where direct experience could lead to accidents. However, if a problem can be solved through simple trial-and-error on a live system, simulation is generally unnecessary.

10. (B) This presents no problem as the model can be run efficiently in computers

Setting a run length long enough to obtain large samples is a valid approach in simulation. Modern computers can efficiently run these models for extended periods, making the processing of large datasets manageable. This allows analysts to achieve higher accuracy and statistical reliability without the computational constraints that might have limited such extensive simulation runs in the technological past.

11. (A) Queuing problems, inventory problems, layout, and maintenance problems

In the field of management, simulation is extensively applied to solve complex operational problems. Primary application areas include queuing issues, inventory management, facility layout design, and maintenance scheduling. These areas often involve dynamic variables and stochastic elements that are difficult to optimize using static mathematical formulas, making the iterative and modeling nature of simulation highly valuable for modern decision-makers.

12. (C) Because simulation tests changes on a model instead of the physical system

Simulation is particularly desirable when experimenting on a real system would disrupt ongoing regular activities. By testing changes on a representative model instead of the physical environment, organizations can explore various

strategies without interrupting production or service delivery. This risk-free environment allows for the thorough evaluation of new operating rules or structural changes without any negative operational consequences.

13. (A) P-2, Q-1, R-4, S-3

Simulation applications are mapped to specific operational domains based on their utility. Aircraft simulation is frequently used for maintenance scheduling, while railroad simulation focuses on complex operations. Facility simulations are typically used to optimize physical layout design. Stock market simulations are applied within the broader market domain to analyze fluctuations. These pairings highlight the diverse utility of simulation across industries.

14. (C) They permit perfect control over all key variables

Simulation becomes a preferred method when real-world experiments are too costly, disruptive, or fail to permit exact replication of events. However, if a real system already permits perfect control over all key variables, the primary need for simulation is reduced. Simulation is most valuable when researchers cannot control or repeat real-world events to isolate specific effects accurately.

15. (D) I, II, III, IV, and V

Simulation methodology is widely recognized for its versatility across numerous fields. It is effectively used in railroad operations and facility layout planning. Additionally, it plays a crucial role in analyzing the foreign exchange market and the stock market. Maintenance scheduling for aircraft is another key area where simulation provides valuable insights into optimizing complex, time-dependent operational tasks and schedules.

16. (D) I, II, III, and IV

Simulation is preferred when a mathematical model is unavailable, too complex to solve, or beyond the capability of the staff. It is also chosen when existing models are not robust enough to provide information on all factors of interest. These conditions highlight that simulation serves as a flexible alternative when

traditional analytical methods fall short of providing comprehensive solutions.

17. (B) Because size or complexity makes other techniques difficult or impossible
Simulation is often used alongside traditional statistical and management techniques because the size or complexity of certain problems makes other methods difficult or impossible to use alone. It provides a way to handle dynamic and stochastic variables that static techniques might miss. By combining these methods, managers can gain a more complete understanding of complex systems and their outcomes.
18. (C) Flaws in complex problem casting may be easily overlooked by the user
A significant operational disadvantage of simulation is that flaws in complex problem casting may be easily overlooked by the user. Because these models can be extremely intricate, quantifying all variables and building a perfect representative structure is difficult. If the initial assumptions are incorrect or incomplete, the resulting data may lead to poor decisions without the user realizing.
19. (A) P-3, Q-4, R-1, S-2
In probability-based simulations, random number intervals are assigned sequentially. For a demand of 45 with a probability of 0.3 starting after 09, the interval is 10-39. A demand of 55 with 0.2 probability starting after 39 occupies 40-59. Demand 65 with 0.3 probability covers 60-89, and demand 75 with 0.1 probability covers the final interval of 90-99.
20. (D) It provides exact robust math info without relying on intuitive judgments
Common disadvantages of simulation include being time-consuming and requiring significant computer expertise. Additionally, it is often viewed as an art because it relies on intuitive judgments due to few guiding principles. However, simulation does not provide exact, robust mathematical information without relying on intuition; rather, it provides approximate results based on the quality of its foundational underlying assumptions.

21. (C) 65
In the provided chance process, daily demand is derived by matching a generated random number to a specific interval. If the random number 89 falls within the interval 60-89, which corresponds to a specific probability, the associated demand is determined. Based on the established intervals for this simulation, the random number 89 corresponds directly to a daily demand of 65.
22. (B) Simulation often operates more like an art than a strict science
The scenario where an analyst must rely on subjective and intuitive judgments due to a lack of strict theoretical principles illustrates that simulation is often more of an art than a science. There are few rigid laws to guide decisions regarding the model's structure or run length. This subjective nature means that the quality of results depends on expertise.
23. (B) 35 litres
In this simulation scenario, the quantity sold is determined by taking the lesser of the actual daily demand or the quantity ordered. If the demand is 45 litres but the vendor only ordered 35 litres, the vendor can only sell what is in stock. Therefore, the exact quantity sold for that day is limited to the 35 litres available.
24. (A) Utilize simulation techniques to encompass the complex variables dynamically
When an existing mathematical model is not robust enough to provide actionable information on all relevant variables, simulation techniques are the most appropriate alternative. Simulation allows for the dynamic representation of complex factors that a static math model might fail to capture. This approach provides a more comprehensive view of how various factors interact and influence the overall system performance.
25. (A) Sold quantity always equals demand regardless of order
In simulation mechanics for perishable goods, the sold quantity does not always equal demand. Instead, it is the lesser of the daily demand or the quantity ordered. If demand exceeds stock, only the stock is sold. Conversely, if stock exceeds demand, only the demand is met, and

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the remaining perishable items are discarded daily, impacting the profit calculation.

- 26.** (B) The process of deciding the optimal length and exact number of simulation runs is heavily structured with rigid scientific laws

It is incorrect to say that deciding the optimal length and exact number of simulation runs is heavily structured with rigid scientific laws. In reality, there are extremely few principles to guide these decisions. The process often feels more like an art than an exact science, requiring the user to rely extensively on their own intuitive professional judgments.

- 27.** (A) Rs. 220

Under the new method, the ordered quantity is 55 litres and demand is 75. Sold quantity is 55. Revenue is 55 multiplied by 36, totaling 1980. Total cost is 55 multiplied by 32, totaling 1760. Subtracting the cost from the revenue results in a profit of 220. This calculation follows the standard formula: $(\text{Sold Quantity} \times \text{Price}) - (\text{Ordered Quantity} \times \text{Cost})$.

- 28.** (C) Modeling methodology – Relies on highly rigid, universally proven scientific principles to guide the exact number of simulation runs needed

The pairing suggesting that simulation relies on highly rigid principles to guide the number of runs is incorrect. Instead, simulation is characterized by having few such principles, often requiring intuitive judgment. Other limitations, such as being time-consuming and the potential for overlooking structural flaws in complex problem casting, are accurate descriptions of simulation's inherent disadvantages and operational skill limitations.

- 29.** (B) Profitability improves under higher average sales and a lower average order

Comparing the two methods, the new method shows improved profitability because it results in higher average sales while maintaining a lower average order quantity. Higher sales increase revenue, while a lower order quantity reduces the costs associated with purchasing stock. This combination leads to a more efficient operation and better financial outcomes compared to the results obtained under the old method.

- 30.** (B) I, III, and IV only

Simulation is highly desirable when physical experiments on a real system are too costly or would severely disrupt ongoing operational activities. It is also preferred when a vast number of observations over an extended time period are required. However, if the system permits complete control over all key variables, the need for simulation as a substitute for experimentation is reduced.

- 31.** (D) They influence performance and determine if system objectives are achieved

Controllable and uncontrollable variables play a vital role in simulation models by influencing system performance. These variables are used to determine if the specific objectives of the system are being achieved under different scenarios. By adjusting controllable variables and observing the impact of uncontrollable ones, managers can analyze how different factors affect the overall outcomes and efficiency of the simulated process.

- 32.** (B) I, II, III, and V only

Simulation is defined as mimicking real-life conditions to find causes of past occurrences or forecast future effects. It is a useful tool for risk-free experimentation. However, simulation does not fundamentally require solving identical linear programming iterations. Instead, it uses unique logic and procedures tailored to specific problems, distinguishing it from general optimization tools that rely on restating fixed objective functions.

- 33.** (A) 2, 4, 5, 1, 3

The correct sequential order for simulation methodology begins with defining the problem and its objectives. Next, the simulation model is constructed, followed by specifying the values of parameters and variables. Once the setup is complete, the simulation is run to generate data. Finally, the results are evaluated against other information to draw conclusions and potentially propose new experiments for study.

- 34.** (C) They are limited by their assumptions and may simplify reality

A primary inherent limitation of simulation models is that they are limited by their underlying assumptions and may simplify

length long enough to obtain large, statistically significant samples. Additionally, the simulation can be run until it reaches equilibrium, where the generated data reaches a stable state and represents steady-state performance.

52. (D) I, II, III, and IV

Simulation methods are commonly applied across diverse operational and financial areas. These include managing air traffic control queuing and scheduling assembly lines in manufacturing. In finance, simulation is used for risk modeling and analyzing the foreign exchange market. These applications demonstrate the versatility of simulation in handling complex, dynamic, and stochastic systems where traditional mathematical solutions are difficult.

53. (D) Experiments on the real system would disrupt ongoing activities

In the hospital scenario, simulation is highly desirable because experimenting on the real system would disrupt ongoing activities. Rearranging an emergency room physically could compromise patient care, which is unacceptable. By using a computer model, the hospital can test different layouts and flows safely. This allows for optimization without any negative impact on the critical services provided by the facility.

54. (C) Direct tax legislative drafting

Recognized applications of simulation include inventory reorder design, assembly line scheduling, and risk modeling in the finance area. These fields benefit from modeling dynamic and uncertain variables. However, direct tax legislative drafting is not explicitly listed as a standard application. Simulation typically focuses on operational, logistical, and financial systems involving physical or probabilistic processes that can be modeled logically.

55. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Simulation is preferable when isolating specific effects is needed but exact replication in the real world is impossible. This is because real-system experiments often do not allow for exact

replication of events, which limits the ability to control key variables identically across trials. Simulation solves this by providing a controlled environment where events can be perfectly replicated for comparative analysis.

56. (A) Inventory reorder design

The store manager is performing an inventory reorder design application by evaluating different ordering policies for perishable goods. By using a probability distribution to simulate demand and testing various rules—such as ordering based on the previous day's demand or a 10-day mean—the manager can determine which policy maximizes profit and minimizes waste without risking actual stock.

57. (D) I, II, III, IV, and V

Simulation is highly desirable when real-world experiments are too costly, disruptive, or require a long time to gather observations. It is also preferred when the real system does not permit the exact replication of events or the control of key variables. These conditions encompass the primary reasons why modeling and simulation are used instead of direct physical experimentation.

58. (B) $D(n - 1)$

In the context of the milk vendor simulation, the rule for ordering the quantity demanded on the previous day is expressed mathematically as $D(n - 1)$. This notation represents the demand (D) for the day immediately preceding the current day (n). This simple decision rule allows the simulation to calculate each day's order based on the chronological sequence of simulated demand.

59. (D) I, II, and III

Several recognized disadvantages accompany the use of simulation. It is often a time-consuming process to build and run comprehensive models. Additionally, users must possess significant computer experience and expertise to design and interpret these models effectively. Furthermore, there are very few established principles to guide the decision-making process regarding what elements should be included in the simulation model.

- 43.** (A) When events are infrequent and occur in a hop-jump fashion
The variable time increment method is most appropriate when events occur infrequently and in a hop-jump fashion. In these cases, advancing the clock uniformly would waste computational resources on intervals where nothing happens. By skipping directly to the next scheduled event, this method efficiently manages time in the model, making it ideal for systems with sporadic or irregular event patterns.
- 44.** (C) Solving equations, constructing physical models, or using graphics
Simulation can be performed through various mechanisms depending on the requirements of the study. These include solving complex equations, constructing physical models, or utilizing computer graphics. By representing system elements through arithmetic, analog, or logical processes, researchers can act out probable real-life conditions. This flexibility allows simulation to be applied to a wide range of physical and operational management processes.
- 45.** (B) The ability to deal with dynamic systems
The primary feature that distinguishes simulation models from other general problem-solving tools is their ability to deal effectively with dynamic systems. Simulation models track and react to changes over time using a simulated clock. This temporal focus allows them to handle complex, time-dependent interactions that static models, such as standard linear programming, are generally unable to address with equivalent detail.
- 46.** (C) It involves using a computer system to perform experiments on a model of a real system
In the financial world, simulation involves using a computer system to perform experiments on a model of a real system. This approach allows financial analysts to evaluate market fluctuations, risk models, and foreign exchange movements without the risk of actual financial loss. By modeling these complex environments, institutions can test strategies and predict future effects under various assumed scenarios.
- 47.** (A) P-4, Q-3, R-2, S-1
A simulated clock is mandatory in both fixed and variable incrementing methods. Being custom built is a feature that distinguishes simulation from general linear programming models. The idea that simulation is a guideline rather than a set of rigid rules applies to building and executing models. Finally, advancing by the amount required for the next event defines the variable method.
- 48.** (C) Assertion (A) is true, but Reason (R) is false.
Simulations are highly useful because they allow for risk-free experiments without actual exposure to danger or loss. However, the claim that simulations provide an exact, complex replica of reality without any simplifications is false. In practice, simulation models often involve gross simplifications and are limited by their underlying assumptions. Therefore, while they are safe tools, they are not perfect replicas.
- 49.** (B) Building and executing a model strictly follow rigid rules that cannot be deviated from
The statement that building and executing a simulation model strictly follows rigid rules is incorrect. In fact, simulation is often considered more of an art than a science, as there are very few principles to guide users in decision-making. Models are custom built for specific problems and can be used alongside other management techniques to determine the full effects of strategies.
- 50.** (C) To evaluate real-time system changes without financial risk
The primary objective of the bank's virtual trading terminal is to evaluate real-time system changes and train personnel without incurring financial risk. Simulation provides a safe environment for new dealers to learn by mimicking real-life market conditions. This allows them to gain experience and make mistakes without exposing the bank to actual losses that would occur in the live market.
- 51.** (D) I, II, and III
There are several accepted approaches for determining the run length of a simulation. One method is to run the model for a specified set period. Another approach is to set the

69. (A) Only Statement I is correct

Simulation is indeed preferable when a strict mathematical model is beyond the capabilities of the available personnel. However, it is incorrect to claim that simulation is inherently flawed or that it guarantees exact replication of all real-world events. While simulation is a flexible tool, it is limited by assumptions and simplifications and cannot provide a perfect guarantee of real outcomes.

70. (C) It requires defining objectives and specifying relevant system variables

Problem definition for simulation fundamentally requires defining specific objectives and identifying the relevant system variables. This includes distinguishing between controllable and uncontrollable variables that affect performance. Unlike other analytical tools, simulation also necessitates specifying starting conditions and the rules that govern system behavior over time. These elements are essential for building a model that dynamically reflects the system's operation.

71. (A) I, II, IV, and V only

Structural disadvantages of simulation include being heavily time-consuming and requiring significant computer operational experience. Additionally, the process provides very few principles to guide the user, which means that intuitive judgments are frequently necessary during construction. However, it is not universally impossible to cast simplistic linear problems into simulation; rather, simulation is simply less efficient than linear programming for tasks.

72. (D) I, II, III, and IV

The stages in the simulation methodology include defining the problem, constructing the simulation model, and evaluating the results. Additionally, proposing a new experiment based on initial findings is a standard part of the iterative process. These stages ensure a structured approach to modeling complex systems and using the generated data to refine the analysis or test new hypotheses.

73. (B) II, III, IV, and V only

Regarding run length, accepted approaches include running the model for a set period,

aiming for large samples, or continuing until equilibrium is reached. When equilibrium is achieved, simulated data reaches a stable state and produces representative results. However, the process is not an exact science bound by rigid rules; instead, it involves subjective judgment and guidelines, making it more akin to an art.

74. (B) Run the Simulation – Determine starting conditions and run length

In the simulation methodology, the stage of running the simulation is correctly paired with the key factors of determining starting conditions and run length. These parameters must be set before execution begins to ensure the data collected is valid. Other pairings, such as defining the problem with statistical tests or evaluating results with probability distributions, do not accurately reflect the methodology.

75. (A) Is perfectly robust enough to reliably provide information on all factors of interest

Simulation is not preferable when an existing mathematical model is already perfectly robust and reliably provides information on all factors of interest. In such cases, the mathematical solution is more efficient and provides exact results. Simulation is only considered when mathematical models are unavailable, too complex to solve, or cannot handle the specific variables and factors the manager needs.

76. (A) P-3, Q-4, R-1, S-2

Defining the problem involves setting objectives and variables. Constructing the model includes specifying variables, parameters, and decision rules. Running the simulation requires determining the starting conditions and run length. Finally, evaluating results involves applying statistical tests. These pairings correctly align the stages of simulation methodology with the critical factors required for a successful and accurate analysis of the system being modeled.

77. (B) Variable time increments advancing the clock to the next event

The maintenance supervisor is utilizing the variable time increment method. This procedure allows the simulation to skip ahead

60. (A) 4, 3, 1, 2

To develop daily demand occurrences, the process begins by choosing a random number. Next, the user finds the random number interval associated with that specific number. Then, the daily demand corresponding to that interval is read. Finally, the quantity sold is calculated by determining the lesser of the derived demand or the quantity ordered for that particular simulated day.

61. (A) P-3, Q-1, R-4, S-2

A time-consuming process is a disadvantage related to resource limitations. When real system experiments are too costly, simulation provides a desirable advantage. Requiring substantial computer expertise is a disadvantage categorized as a skill limitation. Finally, using simulation when a mathematical model exceeds personnel capabilities is a preferable advantage. These classifications help in understanding the benefits of simulation.

62. (C) Assume a starting demand quantity for Day 0

For a simulation where the order equals the demand of the previous day, the owner must assume a starting demand quantity for Day 0. This starting condition is a necessary parameter to initiate the ordering rule for the very first day of the simulation. Without this assumed value, there would be no data available to determine the order quantity for Day 1.

63. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Highly complex simulations can sometimes run under flawed assumptions that the user does not detect. This occurs because quantifying and casting very complex problems into a formal simulation format is inherently difficult. These challenges mean that structural flaws in the model's logic or assumptions can be easily overlooked, potentially leading to inaccurate results despite the apparent sophistication of data.

64. (A) Loss of Rs. 460

If a vendor orders 65 litres but demand is only 45, the sold quantity is 45. Revenue is 45 multiplied by Rs. 36, equaling Rs. 1620. Total

cost is 65 multiplied by Rs. 32, equaling Rs. 2080. Subtracting the cost from the revenue results in a financial outcome of negative Rs. 460. This indicates a financial loss for that day.

65. (B) Relevant controllable variables and Uncontrollable variables

In the simulation methodology, the specification of parameters is heavily associated with identifying relevant controllable and uncontrollable variables. Controllable variables are those that a decision-maker can adjust, while uncontrollable variables are environmental factors beyond their control. Both types are critical for defining the model's behavior and assessing whether the system's objectives can be met under various simulated conditions and scenarios.

66. (C) Both Statement I and II are correct

The simulation compares two distinct ordering methods. The old rule computes the quantity ordered based on the demand recorded on the previous day, which is a dynamic approach. In contrast, the new rule sets the quantity ordered as a constant value based on the mean of the past 10 days. Both statements correctly describe the rules used in the comparative simulation.

67. (A) Fixed increments – Clock advances uniformly regardless of events

The fixed time incremental method is correctly described as a procedure where the clock advances uniformly regardless of whether an event occurs. In this approach, the system is scanned at every designated interval. Conversely, the variable time increment method skips directly to the next scheduled event. Therefore, the uniform progression of time is the defining functional characteristic of the fixed method.

68. (D) To compare average profit between the old and new ordering rules

The ultimate analytical purpose of simulating the 20-day milk vendor scenario is to compare the average profit between the old and new ordering rules. By running the simulation under both policies, the owner can determine which method yields higher financial returns over time. This comparative analysis helps in making an informed decision about which strategy to implement in the system.

reality. While they are powerful tools, they cannot perfectly replicate every nuance of a complex real-world system. Because the model is only as good as the assumptions used to build it, users must be cautious when interpreting results for decision-making.

- 35. (A) Specify Values of Parameters & Variables – Determine statistical tests**

In the simulation methodology, determining statistical tests is part of the evaluation stage rather than the stage where parameter and variable values are specified. Specifying values involves setting parameters like starting conditions and run length. Defining the problem involves setting objectives, while constructing the model involves determining decision rules and time incrementing procedures. Evaluating results requires comparing data with other information.

- 36. (D) Fixed time incremental method**

The manager is applying the fixed time incremental method by advancing the clock in uniform units of one hour. In this procedure, the system is scanned at every designated interval to check for events, regardless of whether an event actually occurred. This contrasts with variable methods where the clock skips ahead to the next event, bypassing periods where the system remains unchanged.

- 37. (D) I, II, and III**

Constructing a comprehensive simulation model requires several key elements to function correctly. These include well-defined decision rules that govern how the system behaves under various conditions. Additionally, a probability distribution is needed to model stochastic variables. Finally, a time incrementing procedure, either fixed or variable, must be established to manage the progression of the simulated clock throughout the model execution.

- 38. (C) It removes the fundamental need for a simulated clock in the model**

It is incorrect to say that the variable time incremental method removes the fundamental need for a simulated clock. In fact, a simulated clock is a mandatory requirement for both fixed and variable incrementing methods. The

variable method specifically advances this clock to the next event. It is particularly useful for infrequent events that occur in a hop-jump fashion.

- 39. (B) The uncontrollable variable**

In the problem definition for a logistics company, daily traffic delays represent an uncontrollable variable. These are factors that influence the system's performance but are not under the direct control of the decision-maker. Simulation allows the company to test how its controllable variables, like dispatching schedules, perform in the face of these unpredictable and external environmental delays that occur daily.

- 40. (D) I, II, III, and IV**

The structured methodology for simulation involves specifying several critical analytical elements. These include parameters and variables that define the system's characteristics and behavior. Furthermore, determining the starting conditions is essential for initiating the model correctly. Finally, establishing the run length is necessary to ensure the simulation operates for a sufficient duration to provide stable and statistically significant results for final evaluation.

- 41. (A) A simulated clock**

A simulated clock is an obligatory requirement for both fixed time increments and variable time increments in simulation models. Regardless of whether time advances uniformly or skips to the next event, the model must have a mechanism to track temporal progression. This clock allows the system to systematically react to changes over time and ensures that events are processed in correct order.

- 42. (B) A way of studying effects of changes in the real system through models**

Simulation is primarily defined as a way of studying the effects of changes in a real system by observing a representative model. It involves mimicking real-life conditions to find causes of past occurrences or forecast future results. Unlike exact mathematical formulas, simulation provides a dynamic environment to test structural changes and operating rules before they are applied to the system.

directly to the next scheduled event, such as a truck breakdown, bypassing periods where no events occur. By advancing the clock only when an event is initiated, the supervisor saves computational time and focuses exclusively on the moments that trigger systemic changes.

- 78.** (C) The controllable variable under the control of the decision maker

In this problem definition, the dispatching schedule represents a controllable variable because it is a decision under the direct control of the manager. By adjusting this variable within the simulation, the company can observe how different schedules perform against uncontrollable factors like traffic delays. This allows for the optimization of delivery efficiency based on factors the decision-maker can actually manipulate.

- 79.** (D) I, II, and III

Simulation's operational scope involves the imitation of real things or processes. It can be used to mimic real-life conditions to find underlying causes of past occurrences or to forecast the future effects of assumed circumstances. These foundational concepts highlight simulation's role as a versatile tool for both descriptive analysis of historical events and predictive modeling of potential future system states.

- 80.** (D) It must represent system elements via arithmetic, analog, or logical processes

A simulation model must represent system elements through arithmetic, analog, or logical processes. This fundamental nature allows the model to act out or mimic real-life conditions within a controlled environment. By using these processes, the simulation can track dynamic changes over time, providing a flexible way to study system behavior without the need for direct physical experimentation.

CHAPTER 10

Fundamentals of Human Resource Management

Oct/Nov 2017

1. A newly appointed HR Manager in a public sector bank notices that training programs are conducted randomly without any clear linkage to the bank's strategic goal of increasing digital banking adoption. To rectify this, the manager redesigns the training curriculum to specifically build digital competencies, thereby directly supporting the bank's strategic direction. This action perfectly embodies the progressive integration of conceptual values with operational values. This paradigm shift was emphasized by:
- (A) Charles Babbage
 - (B) Abijit Gangopadhyay
 - (C) Robert Owen
 - (D) Frederick Taylor

May/June 2005

2. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:
- Assertion (A): Under Strategic Human Resource Management (HRM), Human Resources emerges as an essential part of the due diligence process and becomes strategic in its true sense.
- Reason (R): Business Process Re-engineering has emerged as a key role towards competitive advantage, requiring HR professionals to assess return on investment in human capital.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2023

3. Who among the following claimed that a manager's best investment was in his workers, referring to them as 'vital machines'?
- (A) Robert Owen
 - (B) Charles Babbage
 - (C) Frederick Taylor
 - (D) Elton Mayo

May/June 2014

4. In the context of Strategic Human Resource Management (HRM), what primary function does business strategy serve regarding Human Resource (HR) activities?
- (A) It dictates the routine administrative procedures and protocols for leave and payroll management.
 - (B) It completely replaces the need for any formal human resource management system or department.
 - (C) It isolates HR functions from long-range planning to focus purely on immediate customer issues.
 - (D) It gives direction to HR activities, considering internal and external issues in the business planning process.

Oct/Nov 2011

- According to Peter F. Drucker, the task of management concerning human beings is to make people capable of joint performance. What is the ultimate objective of this task?
- (A) To quantify basic phenomena such as change, risk, and judgment
 - (B) To ensure structural rigidities do not slow down decision making
 - (C) To replace technological discipline with a purely humanistic discipline
 - (D) To make their strengths effective and their weaknesses irrelevant

May/June 2025

6. According to Ulrich (1998), the new mandate for Human Resource (HR) professionals includes all of the following EXCEPT:
- (A) Becoming a partner with senior and line managers in strategy execution.
 - (B) Becoming a champion for employees, vigorously representing their concerns to senior management.
 - (C) Becoming a policy police and regulatory watchdog that handles bureaucratic aspects of benefits exclusively.
 - (D) Becoming an agent of continuous transformation, shaping processes and a culture that improve capacity for change.

Oct/Nov 2018

7. Which of the following was NOT a major assumption in the 'scientific management' approach conceptualised by Frederick Taylor?
- (A) Tasks can be broken down to simple, repetitive units for all people to easily perform.
 - (B) People desire responsibility and achievement while performing their assigned tasks.
 - (C) People will perform a given activity solely in return for direct monetary compensation.
 - (D) People must do exactly what is defined by the organisation and the underlying technology.

May/June 2009

8. In the current knowledge era characterised by unpredictability and change, what does a 'competency gap' signify in an organisational context?
- (A) The difference between existing system abilities and what is expected of them.
 - (B) The significant difference in annual salary and incentive structures between managers and HR specialists.
 - (C) The variation in mandatory statutory welfare benefits and legal protections across sovereign states.
 - (D) The physical and geographical distance between the central HR department and the operational shop floor.

Oct/Nov 2006

9. Match the following thinkers (List I) with their corresponding contributions or concepts (List II):

List I: Thinkers

- P. Charles Babbage
- Q. Frederick Taylor
- R. Elton Mayo
- S. Chris Argyris

List II: Contributions/Concepts

- 1. Time and motion studies
 - 2. Dimensions of motivation rooted in growth needs
 - 3. Early advocate of division of labour
 - 4. Hawthorne Studies and the 'social man' perspective
- (A) P-3, Q-1, R-4, S-2
 - (B) P-1, Q-4, R-2, S-3
 - (C) P-3, Q-4, R-1, S-2
 - (D) P-4, Q-2, R-3, S-1

May/June 2022

10. Consider the following statements regarding the necessity of specialised Human Resource (HR) courses like the Master of Human Resource Management (MHRM):
- I. Normal Business Administration programs, where HR is a passive topic, may not suffice to capture the full expertise required for HR professionals in a volatile atmosphere.
 - II. MHRM integrates intense HR topics with reasonable knowledge of other management disciplines of business importance.
 - III. MHRM aims only to transmit professional knowledge and discourages informal networking among contemporaries.
 - IV. The curriculum needs to help students put their role into the simulation of a prospective HR professional.

Which combination of statements is correct?

- (A) I, II, and III only
- (B) I, II, and IV only
- (C) II, III, and IV only
- (D) I, III, and IV only

Oct/Nov 2015

11. Consider the following statements regarding the foundation of an organisation:
- I. Historically, one stream of thought focused on how to organise activities systematically to bring specificity in work processes.

constitute a critical factor in the development and growth of the organisation?

- (A) Edgar Schein
- (B) Peter F. Drucker
- (C) Sheth
- (D) De'Cenzo

Oct/Nov 2020

55. In the 1970s, a large family-controlled textile firm in India decided to shift from treating its employees purely as subjects of paternalistic care to establishing a well-defined personnel department with professional practices. This transition reflects an urge to demonstrate being:

- (A) Exclusively profit-oriented entities
- (B) 'Model employers' adopting a professional style
- (C) Purely traditional labour welfare handlers
- (D) Academic researchers in behavioural science

May/June 2011

56. Consider the following statements regarding the traditional sub-modules of the broad HRM function:

- I. De'Cenzo classified the sub-modules into Acquisition, Development, Motivation, and Maintenance.
- II. Pareek and Rao classified the sub-modules into Planning and Administration, HRD, Job and Salary, and Workers Affairs.
- III. Conventional components of people management are generally categorised under Development and Motivation.
- IV. Systems related to induction, career planning, and performance appraisal are covered under Administration and Maintenance.

Which combination of statements is correct?

- (A) I and II only
- (B) I, II, and III only
- (C) II, III, and IV only
- (D) I, III, and IV only

Oct/Nov 2008

57. Consider the following statements regarding the status of a profession:

- I. Any area of knowledge to gain the status of a profession has to fulfill three main criteria: having a corpus of knowledge, a period of learning and apprenticeship, and

a code of conduct.

- II. The National Commission on Labour observed that IIPM has the credit of making Personnel Management as a profession in India.

Which of the following statement(s) is/are correct?

- (A) Only Statement I is correct.
- (B) Only Statement II is correct.
- (C) Both Statement I and Statement II are correct.
- (D) Neither Statement I nor Statement II is correct.

May/June 2023

58. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:

Assertion (A): None of the earlier aspects of people management were entirely wiped out as Human Resource Management (HRM) matured in an organisation.

Reason (R): The earlier aspects have become stabilised, routinised, and therefore become less crucial in comparison to the newer dimensions.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2014

59. Which of the following legislations or constitutional provisions is NOT primarily concerned with employment and employee welfare?

- (A) Information Technology Act, 2000
- (B) Article 16(1) of the Indian Constitution
- (C) Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959
- (D) Interstate Migrant Workmen Act, 1979

experiences of organisations initiating HRD activities.

3. Established in 1970 to give academic and developmental support through training programmes.
 4. Created around the same time as IIPM, aimed to foster cordial relations between employers and employees.
- (A) P-4, Q-1, R-3, S-2
(B) P-1, Q-2, R-4, S-3
(C) P-2, Q-3, R-1, S-4
(D) P-1, Q-4, R-2, S-3

Oct/Nov 2014

17. Historically, there has been a duality in the personnel management approach between a profit-minded tradition and a social welfare tradition. How do contemporary organisations generally view this duality?
(A) Productivity is recognised as the sole legitimate organisational goal, rendering maintenance obsolete.
(B) Both productivity and maintenance are accepted as primary and essential types of organisational goals.
(C) Social welfare is viewed as antithetical to the 'real' organisational goal by all modern managers.
(D) The profit-minded approach has been completely replaced by the employee wellness approach.

May/June 2006

18. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:
Assertion (A): The actions taken by Tata Iron and Steel Company (TISCO) at Jamshedpur regarding human factors were highly progressive for their time.
Reason (R): J.N. Tata's philosophy of building people in the organisation was a new concept to the prevailing Human Resource Management (HRM) environment, yet it successfully resulted in proactive practices unheard of at that point in time.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are

true, but Reason (R) is not the correct explanation of Assertion (A).

- (C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2022

19. Identify the correct pair linking a fundamental people management activity with its core question.
(A) Succession planning – How do we identify and develop leaders for key roles?
(B) Recruitment and selection – How do we evaluate employee contributions?
(C) Training and developing – How do we attract potential candidates?
(D) Performance appraisal – How do we define future manpower requirements?

May/June 2019

20. Consider the following statements regarding the 1980s transformation in India's Human Resource (HR) perspective:
I. The approach was introduced by Indian academicians around the same time when the western world started talking about HRD.
II. The focus of Uday Pareek and T V Rao's work was strictly on enhancing the penal provisions of the Industrial Disputes Act.
III. The government introduced employee participation and allocated shareholding to workers during this era.

Which combination of statements is correct?

- (A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2010

21. Which of the following statements best defines 'Strategic HRM' in simple terms?
(A) The routine administrative process of ensuring attendance, output, and statutory compliance within the legal framework.
(B) The exclusive delegation of all day-to-day employee-specific issues to line managers without any professional HR guidance.
(C) The process of conducting daily domestic enquiries, managing industrial disputes, and attending mandatory proceedings.

Which of the following was NOT one of those factors?

- (A) The growth of unionism
- (B) State interventions through legislation and codes of practices
- (C) The stress on statutory welfare and need for broader policies
- (D) The complete eradication of line managers from the banking sector

Oct/Nov 2024

- 33.** Consider the following statements regarding the Confederation of Indian Industry (CII) Human Resource (HR) Competency Model:
- I. It includes nine behavioural competencies.
 - II. Drive, creativity, and self-confidence are among the behavioural competencies.
 - III. Financial perspective and building expertise are classified as behavioural competencies.
 - IV. Teamwork, influence, and problem solving are among the behavioural competencies.
- Which of the following statement(s) is/are correct?
- (A) I, II, and III only
 - (B) I, II, and IV only
 - (C) II, III, and IV only
 - (D) I, III, and IV only

May/June 2013

- 34.** Consider the following statements regarding early government legislations in India:
- I. Article 16(1) of the Indian Constitution ensures equal opportunity for employment.
 - II. Drawing from Article 16(1), the Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959 was enacted.
 - III. The Employment Exchanges Act of 1959 strictly prohibits employers from notifying vacancies to any external body.
- Which of the following statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

Oct/Nov 2005

- 35.** The following question consists of two statements, one labeled as Assertion (A) and

the other as Reason (R). Select the correct answer using the codes given below:

Assertion (A): Human Resource Development (HRD) departments in banks can no longer function in isolation and must play an important role in coordinating various organisational activities.

Reason (R): The challenges faced by banks require an improvement in the overall effectiveness of banks, necessitating significant changes in Human Resource (HR) functions.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2020

- 36.** Consider the following statements regarding the findings of studies on Indian Human Resource Management (HRM) professionals and the convergence of HRM practices:
- I. There is a decreasing reliance on the administrative expert role among Indian HRM professionals.
 - II. Findings demonstrate consistency with previous studies on key roles and competencies.
 - III. The convergence of HRM practices in India is in line with western HR practices.
 - IV. This convergence can be attributed to the overseas expansion of Indian companies.
 - V. Exposure to the HRM practices of multinational corporations in India also contributed to this convergence.

Which combination of statements is correct?

- (A) I, II, III, and V only
- (B) I, III, IV, and V only
- (C) II, III, IV, and V only
- (D) I, II, III, IV, and V

Oct/Nov 2021

- 37.** Identify the incorrect statement regarding the qualities and traits of a successful Human Resource (HR) professional.
- (A) A person should possess a high degree of

Oct/Nov 2016

27. Consider the following statements regarding the emerging perspective of Human Resource (HR) functionaries:

- I. The emerging perspective highlights the integration of people with the organisation to make cooperative action easier.
- II. It implies that the staff-line functionaries need to be partners in achieving the objectives of HRD.
- III. The HR function remains an isolated maintenance function directed solely by external statutory obligations.

Which of the following statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

May/June 2008

28. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:

Assertion (A): Candidates now look for organisations that nurture their talent, provide opportunities to grow, and offer a supportive and healthy work culture.

Reason (R): Consequently, Human Resource (HR) managers are working more closely towards employer branding along with their traditional responsibilities.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2013

29. The debate on whether the Human Resource (HR) function should be a specialist function or handled by line managers implies that ultimate success is decided by the human relation orientation. Identify the correct statement regarding this philosophical orientation.

- (A) It is the exclusive property of individuals

holding specific academic qualifications and postgraduate degrees.

- (B) It is not exclusive to any profession; those with it can acquire professional knowledge and skills.
- (C) It can only be developed by line managers who have no formal training in management or theory.
- (D) It is rendered irrelevant by the introduction of the SHRM Competency Model and technical frameworks.

May/June 2015

30. A financial institution actively communicates its core values of equality and inclusion. It launches specific programs to close the gender and pay gap, promotes women to executive positions, and supports employees pursuing further education. These actions are indicative of the modern Human Resource (HR) priority focused on:

- (A) Strict regulatory compliance under the Factories Act
- (B) Restricting informal networking among employees
- (C) Mentoring, leadership, and creating a diverse workplace
- (D) Implementing purely technical time and motion studies

Oct/Nov 2012

31. Identify the incorrect statement regarding the relationship between Human Resource (HR) competency models and their components.

- (A) CII HR Competency Model – Lists 19 interlinked competencies including nine behavioural competencies.
- (B) CII HR Competency Model's functional competencies – Includes business knowledge, change management, and diversity management.
- (C) SHRM Competency Model – Includes Leadership and Navigation, Ethical Practice, and Business Acumen.
- (D) SHRM Competency Model – Primarily focuses on paternalistic welfare administration and strict disciplinary control.

May/June 2010

32. By the 1960s, personnel specialists expanded their sphere of influence due to several factors.

NODIA

Oct/Nov 2017

43. Match the Broad Functions under Human Resource (HR) roles (List I) with their corresponding specific activities (List II):

List I: Broad Functions

- P. Core People Role
- Q. Organisational Value-Add Role
- R. Business Transformation Role
- S. Broad Functions under each role

List II: Specific Activities

- 1. Creating a flexible work culture and assessing ROI in Human Capital
- 2. Selection, Career Development, and Retention
- 3. Encompasses all the specific roles and services across the three main domains
- 4. HR Technology Services and Creating a learning work environment

- (A) P-2, Q-4, R-1, S-3
- (B) P-1, Q-2, R-3, S-4
- (C) P-4, Q-1, R-2, S-3
- (D) P-2, Q-3, R-4, S-1

May/June 2005

44. Which of the following best represents the fundamental shift in perspective brought about by the Hawthorne Studies regarding people management?
- (A) The shift from treating employees as 'vital machines' to 'rational-economic man'
 - (B) The shift from focusing on division of labour to time and motion studies
 - (C) The shift from a 'rational-economic man' perspective to a 'social man' perspective
 - (D) The shift from strategic human resource management to basic welfare administration

Oct/Nov 2023

45. An Human Resource (HR) Director at a multinational bank vigorously advocates for the employees, ensuring that their concerns are presented to senior management while simultaneously working to increase their commitment and ability to deliver results. According to Dave Ulrich's framework, which specific role is the HR Director fulfilling?
- (A) Becoming a partner in strategy execution
 - (B) Becoming a champion for employees
 - (C) Becoming an expert in the way work is organised and executed
 - (D) Becoming an agent of continuous

transformation

May/June 2014

46. Consider the following milestones in the evolution of human resource management:
- I. Conduct of the Hawthorne Studies by Elton Mayo and others
 - II. Conceptualisation of the 'scientific management' approach by Frederick Taylor
 - III. Work of Robert Owen and Charles Babbage on people management and division of labour
 - IV. Highlighting of dimensions of motivation rooted in the growth need of an individual by researchers like Maslow and Herzberg
- Which of the following represents the correct chronological sequence of these milestones?
- (A) III, II, I, IV
 - (B) II, III, I, IV
 - (C) III, I, II, IV
 - (D) I, III, II, IV

Oct/Nov 2011

47. Identify the correct statement regarding the concept of Human Resource (HR) Relationship Managers in some banks.
- (A) They are primarily responsible for drawing up formal charge sheets and the legalities of domestic enquiries.
 - (B) They function solely as a passive academic topic in business programs without contributing to modern advantage.
 - (C) They focus entirely on paternalistic approaches designed to shield employees from rapid technological advancements.
 - (D) Ensure that HR activities help the organisation serve customers or increase shareholder value.

May/June 2025

48. In the context of today's organisations operating in a VUCA environment, why do the strict assumptions of early simplistic mechanical approaches have little relevance?
- (A) Because technology tends to get stabilised over long durations, reducing the requirement for human intervention.
 - (B) Because modern organisations strictly prohibit all forms of labour union activities and collective bargaining.
 - (C) Because the primary focus of all modern

freedom from personal bias and subjective prejudice.

- (B) A person should have a passion for anonymity, passing on all credit to subordinates in success.
- (C) A person should possess good communication skills and be a consistently empathetic listener.
- (D) Must have a partial attitude towards management to ensure business goals are met.

May/June 2007

38. According to Sheth, human sensitivity, trust in people, and participative management are treated as a part of what within an enterprise?
- (A) Routine welfare administration
 - (B) Statutory legal compliance
 - (C) Managerial culture and philosophy
 - (D) Purely technological discipline

Oct/Nov 2009

39. The Human Resource (HR) Head of a retail bank decides to stop handling day-to-day employee-specific issues like leave approvals and minor grievance resolutions. Instead, these responsibilities are delegated to the respective branch managers, while the HR team focuses on designing a new corporate-wide talent management policy. This shift in operational model aligns with which approach?

- (A) The traditional model confining line managers merely to extracting work without administrative involvement.
- (B) Strategic HR approach where line managers act as local administrators for employee-specific issues.
- (C) The paternalistic approach of early family-controlled firms where the owner makes all personnel decisions.
- (D) The scientific management approach focusing strictly on time and motion studies to maximize unit output.

May/June 2016

40. Identify the incorrect statement regarding the current state of Human Resource (HR) functions in banks.
- (A) Banks consider HRD a specialized discipline where only credentialed professionals can lead.
 - (B) Managing human resources in an

organisation requires special skills, unique perspectives, and training.

- (C) HR functions in banks are generally not performed professionally, which differs from other corporates.
- (D) The CII developed an HR Competency Model to address the various interlinked competencies required.

Oct/Nov 2019

41. Consider the following statements regarding Human Resource (HR) professionals under Strategic Human Resource Management (HRM) in Banks:

- I. HR professionals need to unlearn their traditional philosophy of functioning in isolation.
- II. HR policies evolved should have an inbuilt resilience to meet the corporate business goals of the bank.
- III. Assessing return on investment in human capital is irrelevant to the due diligence process.

Which of the following statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

May/June 2018

42. Edgar Schein defines an organisation as the rational coordination of the activities of a number of people for the achievement of some common explicit purpose or goal. Through which of the following mechanisms is this coordination achieved according to this definition?

- (A) Through autonomous work groups, informal networks, and community-driven social structures
- (B) Through division of labour and function, and through a hierarchy of authority and responsibility
- (C) Through continuous professional development, strategic goal alignment, and corporate training
- (D) Through technological replication, scientific management, and rigid digital surveillance systems

NODIA

- II. Another stream focused on understanding an individual's relation to a given activity, recognised as 'work'.

Which of the following options is correct?

- (A) Only Statement I is correct.
 (B) Only Statement II is correct.
 (C) Both Statement I and Statement II are correct.
 (D) Neither Statement I nor Statement II is correct.

May/June 2017

12. Consider the following phases or events in the development of Human Resource (HR) functions in India:

- I. The transformation introducing the Human Resource Development (HRD) approach, led by the work of Uday Pareek and T V Rao.
 II. Indians visible as Labour Welfare Officers under the provisions of the Factories Act.
 III. Addition of legalistic aspects of labour management due to the percolation of the Industrial Disputes Act of 1947.
 IV. Increased demand for personnel professionals with specific knowledge about people management systems and laws, leading to personnel specialists expanding their sphere of influence.

Which of the following represents the correct chronological sequence of these events?

- (A) II, III, IV, I
 (B) III, II, I, IV
 (C) II, IV, III, I
 (D) IV, II, III, I

Oct/Nov 2020

13. Consider the following statements regarding the history of people management as a distinct managerial function:

- I. In India, the experiment on group behaviour in Ahmedabad mills by Prof. A. K. Rice in 1952 was a significant contribution.
 II. Early specialised units dealing with people management were mostly termed as Time Office in textile mills.
 III. The term 'personnel officer' was initially used extensively during the industrial revolution in the late 18th century.

Which of the following statement(s) is/are

correct?

- (A) I and II only
 (B) II and III only
 (C) I and III only
 (D) I, II, and III

May/June 2011

14. By the early 1950s, the provisions of which specific Act were beginning to percolate down, adding legalistic aspects of labour management to the duties of labour officers?

- (A) Child Labour Act of 1986
 (B) Employment Exchanges Act of 1959
 (C) Industrial Disputes Act of 1947
 (D) Apprentices Act of 1961

Oct/Nov 2008

15. Identify the incorrect statement regarding the relationship between Human Resource Management (HRM) and Human Resource Development (HRD).

- (A) There is no conflict between the structure and functions of HRM and HRD; the difference is only in the approach and emphasis.
 (B) Routine functions become a part of HRM, while HRD functions emphasise organisational interventions for climate development.
 (C) HRD is sometimes considered as the most significant subsystem of HRM.
 (D) The development of professionals under HRD is a one-time process aligned solely with initial organisational requirements.

May/June 2023

16. Match the following entities or professional bodies (List I) with their descriptions or establishment context (List II):

List I: Professional Bodies

- P. Indian Institute of Personnel Management (IIPM)
 Q. National Institute of Labour Management (NILM)
 R. National HRD Network
 S. Indian Society for Training and Development (ISTD)

List II: Descriptions/Establishment Context

1. Established in 1947, played a significant role in making Personnel Management a profession.
 2. Established in 1985 to focus on the

organisations has shifted exclusively to profit-minded accounting.

- (D) Because human resources respond dynamically, where small treatment variations create significant waves in complex settings.

Oct/Nov 2018

49. A bank introduces a new suite of digital wealth management products. However, the current relationship managers lack the specific technical skills to advise clients on these products. The Human Resource (HR) department closely works with management to obtain appropriate training resources to fill this void. This process describes HR's role in:
- (A) Enforcing collective bargaining
 - (B) Identifying and filling competency gaps
 - (C) Administering time and motion studies
 - (D) Managing routine welfare services

May/June 2009

50. Identify the correct statement regarding the evolution of approaches in Human Resource Management (HRM).
- (A) Newer dimensions of people management completely substitute the earlier aspects of the function.
 - (B) Traditional activities like basic administration and maintenance have been entirely wiped out.
 - (C) The evolution of approaches is characterised by the addition of dimensions rather than substitution.
 - (D) Administrative functions have become more crucial and dynamic than the newer developmental dimensions.

Oct/Nov 2006

51. Consider the following statements regarding the broader focus of Human Resource (HR) professionals:
- I. HR professionals should retain their primary function to lay emphasis on internal customers (employees).
 - II. HR professionals should also focus their attention on delivering value to the external customer as part of the new Business-HR effort.
 - III. They need to be suitably equipped with hands-on expertise/knowledge on Information Technology.

IV. They can afford to function in isolation from the world of changes taking place rapidly in other segments.

V. They require a missionary zeal and enthusiasm for continuous learning and acquiring new knowledge.

Which combination of statements is correct?

- (A) I, II, III, and V only
- (B) I, II, IV, and V only
- (C) II, III, IV, and V only
- (D) I, III, IV, and V only

May/June 2022

52. A manufacturing plant implemented strict procedural controls based purely on time and motion studies, resulting in high employee turnover and a drop in productivity. Management noticed that employees felt isolated and unappreciated. To rectify this, the plant manager introduced weekly team-building sessions and cross-functional interactions, leading to improved morale and output. This intervention aligns most closely with which historical perspective?
- (A) The scientific management perspective of Frederick Taylor
 - (B) The 'rational-economic man' perspective
 - (C) The division of labour principle by Charles Babbage
 - (D) The human relations movement and 'social man' perspective

Oct/Nov 2015

53. Identify the incorrect statement regarding the initial role of Labour Welfare Officers in India around the time of independence.
- (A) They acted as recruitment officers for the multitude of workers.
 - (B) They kept the muster rolls and leave records.
 - (C) They were tasked with running canteens and wielding the security-cum-discipline stick.
 - (D) They were responsible for strategic business planning and corporate vision alignment.

May/June 2017

54. Who stated that human beings develop a stake in the enterprise as they work in it, and hence their motivation, development, and growth

- (D) The use of employee knowledge, skills, and abilities in formulating and executing business strategy.

May/June 2024

- 22.** As stated by Abijit Gangopadhyay, what is the principal mandate for the emerging people management?
- (A) Ensure maximum technological replication across all branch operations to reduce human dependency.
- (B) Strictly enforce hierarchical authority and top-down communication without any form of participation.
- (C) Develop and execute policy programmes and practices that align human activity to corporate objectives.
- (D) Confine the HR function to statutory welfare, maintenance activities, and basic labor regulations.

Oct/Nov 2025

- 23.** According to Pareek and Rao, which of the following falls under the 'Process Role' of Human Resource (HR) functionaries?
- (A) Developing technical, managerial, and processing competence through structured learning and mentorship.
- (B) Creating culture, diagnosing organisational problems, and taking corrective steps.
- (C) Planning future manpower requirements, recruiting new talent, and assessing the potential of employees.
- (D) Strengthening of the operating and executive levels while consolidating internal strengths for stability.

May/June 2012

- 24.** Identify the incorrect statement regarding recent trends and functions of Human Resource (HR) in India.
- (A) Data analytics usage – Exclusively used to monitor and decrease employee salary growth over time.
- (B) New priorities – Creating a diverse workplace, establishing gender parity, and pay equality.
- (C) Artificial Intelligence (AI) solutions – Used for manpower acquisition, reducing time taken at the recruitment phase.
- (D) Employee-centric environments – Facilitated by using data analytics to

increase productivity, innovation, and revenue.

Oct/Nov 2007

- 25.** Match the HR roles as grouped by Pareek and Rao (List I) with their descriptions (List II):
- List I: HR Roles
- P. Supportive Role
- Q. Role of Systems Development and Research
- R. Managerial role
- S. Role of Developing Competence
- List II: Descriptions
1. Developing technical, managerial, and processing competence, including helping and coping competence.
 2. Strengthening of the operating and executive levels and consolidating the strengths in an organisation.
 3. Performing functions like planning manpower, recruiting, retaining, and potential assessment.
 4. Developing systems that deal with people, their problems, and organisational dynamics.
- (A) P-2, Q-4, R-3, S-1
- (B) P-4, Q-2, R-1, S-3
- (C) P-1, Q-3, R-4, S-2
- (D) P-3, Q-1, R-2, S-4

May/June 2021

- 26.** An HR team at a tech startup is overwhelmed by the hundreds of applications received for a single role. To solve this, they implement an AI-powered software that screens resumes based on defined skill parameters, saving managers the time needed to manually browse applications. This allows the HR team to focus more on candidate mentorship. This scenario best illustrates:
- (A) The application of traditional time and motion studies to optimize individual task performance in HR.
- (B) Use of AI for efficient manpower acquisition and talent management.
- (C) The delegation of routine administrative tasks and leave approvals to the respective line managers.
- (D) The revival of the traditional welfare secretary role focusing on employee health and safety.

May/June 2006

60. Consider the following statements regarding the professionalisation of the Human Resource (HR) function:

- I. The professionalisation raised the issue of whether it should become a specialist function or if line managers could become HR functionaries.
- II. The contents of the role include specialised skills and knowledge on one hand, and philosophical orientation on the other.
- III. The philosophical orientation required for HR is strictly the property of the HR profession per se.
- IV. Knowledge and skills are helpful in developing systems, but ultimate success is decided by human relation orientation.
- V. The traditional function of people management was concerned with ensuring attendance, output, and safety on the shop floor.

Which combination of statements is correct?

- (A) I, II, III, and V only
- (B) I, II, IV, and V only
- (C) II, III, IV, and V only
- (D) I, III, IV, and V only

Oct/Nov 2022

61. A corporate board is debating whether to invest heavily in a new employee development initiative. One director argues that the corporation is in the business of manufacturing, not human resource development. Another director counters by stating that human resource development is an important tool that must become the business of everyone in the organisation. This counter-argument aligns directly with the views expressed by:

- (A) Charles Babbage
- (B) T V Rao
- (C) Frederick Taylor
- (D) Elton Mayo

May/June 2019

62. A regional head at a commercial bank assumes the responsibility of assessing the potential of branch employees, planning their growth, and creating a culture that helps employees cope with changing banking regulations. Although the regional head is not part of the formal HR department, they actively execute these duties. Which concept best explains this scenario?

- (A) HR as a purely staff function disconnected from business operations.
- (B) The traditional perspective where line managers are solely responsible for extracting work.
- (C) Every manager having to implement a component of the HR function through day-to-day actions.
- (D) The eradication of the HR department in favour of fully autonomous regional branches.

Oct/Nov 2010

63. Identify the correct pair regarding the merged entity of professional Human Resource (HR) bodies in India.

- (A) ISTD and the National HRD Network merged in 1996 to form a unified Strategic HRM Council for nationwide policy.
- (B) TISCO and the National Commission on Labour merged in 1952 to form a permanent Personnel Management Board.
- (C) The CII and the Western Electric Company merged to conceptualise and fund the historic Hawthorne Studies.
- (D) IIPM and NILM merged in 1982 to form the National Institute of Personnel Management.

May/June 2024

64. Consider the following statements regarding the maturing of the Human Resource (HR) function:

- I. The maturing of this function from personnel to HRM and HRD highlighted that it cannot be totally delinked from the line managers.
- II. Line managers are considered the delivery points of the HR function.

Which of the following statements is/are correct?

- (A) Only Statement I is correct.
- (B) Only Statement II is correct.
- (C) Both Statement I and Statement II are correct.
- (D) Neither Statement I nor Statement II is correct.

Oct/Nov 2025

65. Consider the following statements regarding modern Human Resource (HR) reliance on technology:

- I. HR believes in broadening engagement with candidates through recruitment marketing and mentorship.
- II. AI integration is restricted only to back-office payroll processing, with no employee-facing applications.
- III. Data analytics is used to track metrics such as offer acceptance rate, training expenses per employee, and turnover rate.
- IV. The database of employee information helps HR personnel understand behavioural patterns regarding retention and engagement.

Which of the following statement(s) is/are correct?

- (A) I, II, and III only
- (B) I, II, and IV only
- (C) I, III, and IV only
- (D) II, III, and IV only

May/June 2012

- 66.** An HR manager notices that the introduction of a new core banking software has caused significant stress among tellers. The manager designs a series of workshops not only to teach the technical aspects of the software but also to build the tellers' resilience and stress-management capabilities. Which specific role, according to Pareek and Rao, is the HR manager primarily fulfilling?

- (A) Supportive Role
- (B) Role of Systems Development and Research
- (C) Role of Developing Competence
- (D) Managerial role

Oct/Nov 2007

- 67.** Consider the following statements regarding the metrics tracked by modern Human Resource (HR) managers to improve the employee experience:

- I. They track the offer acceptance rate.
- II. They track training expenses per employee.
- III. They track the turnover rate and human capital risk.
- IV. They track revenue per employee.
- V. Data from these key metrics has helped reduce attrition and make the workforce more productive.

Which combination of statements is correct?

- (A) I, II, III, and V only

- (B) II, III, IV, and V only
- (C) I, III, IV, and V only
- (D) I, II, III, IV, and V

May/June 2021

- 68.** According to Pareek and Rao, all of the following are critical 'Technical' attributes required for dispensing the Human Resource Development (HRD) role EXCEPT:

- (A) Knowledge of performance appraisal systems and their functioning
- (B) Ability to design and coordinate training programmes
- (C) Knowledge of techniques in behavioural research
- (D) Faith in human beings and their capabilities

Oct/Nov 2016

- 69.** Why do modern Human Resource (HR) departments use data analytics to identify future risks and vulnerabilities in the organisation?

- (A) So that line managers can be entirely replaced by automated digital systems and AI-driven decision tools.
- (B) So that they can justify reducing the compensation and benefit structures of underperforming employees.
- (C) So that the organisation can revert to the simplistic mechanical approach of management from the industrial era.
- (D) So that effective solutions may be applied right away or problematic situations avoided.

May/June 2008

- 70.** A bank is hiring a new HR Head. The selection committee evaluates candidates not just on their technical knowledge of labour laws, but primarily on their initiative, positive attitude to others, imagination, creativity, and concern for excellence. Which category of critical attributes, as identified by Pareek and Rao, is the committee focusing on?

- (A) Technical
- (B) Managerial
- (C) Personality
- (D) Strategic

Oct/Nov 2013

71. Identify the correct statement regarding the evolution of human resource management globally and in India.
- (A) The evolution of HR functions in India was completely isolated and entirely different from the stages experienced in the US or UK.
 - (B) Events in the Industrial era in the US or UK during the British Raj had ripples felt in India, leading to similar stages of evolution.
 - (C) The world wars severely hindered the creation of welfare issues, halting HR development across nations.
 - (D) At the time of independence, Indian industrialists completely rejected the concept of personnel and welfare officers.

May/June 2015

72. In which year did the Confederation of Indian Industry (CII) develop a Human Resource (HR) Competency Model listing 19 interlinked competencies for the HR heads in organisations?
- (A) 1985
 - (B) 1996
 - (C) 2004
 - (D) 2018

Oct/Nov 2012

73. In the 1960s, an engineer promoted to a line management position in a manufacturing plant struggled to handle complex domestic enquiries and conciliation proceedings with newly formed labour unions. Consequently, the company hired a specialised personnel officer to handle these tasks. This shift highlights:
- (A) Specialists addressing technical managers' inadequacies in people management.
 - (B) The total failure and subsequent abandonment of the human relations movement in manufacturing.
 - (C) The reduction of the HR function to mere attendance tracking and basic record maintenance.
 - (D) The total replacement of the personnel department by managers assuming all HR duties.

May/June 2010

74. An Indian commercial bank is restructuring its Human Resource (HR) department. The CEO observes a decreasing reliance on the administrative expert role in favour of roles that show a degree of convergence with western HR practices. Based on studies of Indian HRM professionals, which role is increasingly considered the key role?
- (A) Paternalistic welfare officer
 - (B) Functional HRM specialist
 - (C) Sole regulatory watchdog
 - (D) Purely administrative record-keeper

Oct/Nov 2024

75. Consider the following statements regarding developments in India during the 1980s:
- I. The emerging hi-tech industries introduced the concept of 'knowledge workers'.
 - II. An enlarged outlook for personnel was envisaged in general during this period.
 - III. HRD as a subsystem of Human Resource Management (HRM) emerged as a distinctive feature of this era.
 - IV. The government banned employee participation and shareholding to workers during this time.
- Which combination of statements is correct?
- (A) I, II, and III only
 - (B) I, II, and IV only
 - (C) II, III, and IV only
 - (D) I, III, and IV only

May/June 2013

76. To enhance their role and dissipate new knowledge and skills amongst employees, which of the following is most appropriate for a Human Resource (HR) professional to do?
- (A) Avoid interaction with cross-functional teams to maintain the absolute purity of the HR discipline.
 - (B) Restrict problem-based project studies and internal audits to external consultants only for distance.
 - (C) Interact regularly with technical experts to remain familiar with technological developments affecting the organisation.
 - (D) Limit professional qualifications and continuous learning exclusively to legalistic aspects of labour management.

Oct/Nov 2005

77. Match the individuals (List I) with their associated concepts or quotes (List II):

List I: Individuals

- P. Peter F. Drucker
Q. Elton Mayo
R. Dave Ulrich
S. Sheth

List II: Concepts/Quotes

1. Mandate for HR professionals to become partners in strategy execution and change agents.
 2. Underlying HRM is a progressive reinforcement of values of democracy, liberalism, and humanism.
 3. Hawthorne Studies pointing out dimensions of human behaviour.
 4. Management is about human beings... to make their strengths effective and their weaknesses irrelevant.
- (A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-1, S-2
(C) P-4, Q-1, R-3, S-2
(D) P-1, Q-2, R-4, S-3

May/June 2020

78. Consider the following statements regarding the essential qualities of a Human Resource (HR) professional:

- I. They should possess good leadership abilities.
- II. They must have an impartial objective attitude towards management, workers, and work-groups.
- III. They should lack imagination to ensure strict adherence to established protocols.
- IV. They should own up responsibility for failures not only of self but of their subordinates.
- V. They should possess high levels of intelligence, analytical ability, and good judgment.

Which combination of statements is correct?

- (A) I, II, IV, and V only
(B) I, II, III, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

Oct/Nov 2021

79. A fast-growing fintech company faces rapid changes in regulations, unpredictable market trends, and shifting workforce demographics

(a typical VUCA environment). The HR head proposes abandoning rigid standard operating procedures for employee management, instead adopting a flexible approach that focuses on coping competence and continuous organisational development. This proposal primarily aligns with which HR role as defined by Pareek and Rao?

- (A) Supportive Role
(B) Routine Administrative Role
(C) Sole Regulatory Watchdog Role
(D) Process Role

May/June 2007

80. Consider the following statements regarding the pattern of functions under Strategic Human Resource Management (HRM) in Banks:

- I. The traditional model advocates the responsibility of redressing employee-specific issues solely to HR professionals.
- II. Under the new model, HR professionals are expected to be the first point of contact on all employee-specific issues.

Which of the following statements is/are correct?

- (A) Only Statement I is correct.
(B) Only Statement II is correct.
(C) Both Statement I and Statement II is correct.
(D) Neither Statement I nor Statement II is correct.

ANSWERS

1. (B) Abijit Gangopadhyay
Abijit Gangopadhyay emphasized the progressive integration of conceptual values with operational values in people management. This paradigm shift ensures that human resource activities, such as training and development, are directly linked to the organization's strategic goals. By aligning digital competencies with business objectives, the human resource function evolves from a routine administrative role into a strategic business partner.
2. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Strategic Human Resource Management integrates people management into the core business planning process, making it a vital component of the due diligence process. Business Process Re-engineering highlights the need for human resource professionals to evaluate the return on investment in human capital. This analytical approach provides the necessary evidence and justification for human resources to assume a truly strategic role.
3. (A) Robert Owen
Robert Owen, a pioneer in the field of personnel management, famously referred to workers as vital machines. He argued that just as a manufacturer maintains expensive equipment to ensure peak performance, an investment in the well-being and development of employees yields significant returns. This philosophy laid the groundwork for modern human resource practices by recognizing the inherent value of the workforce.
4. (D) It gives direction to HR activities, considering internal and external issues in the business planning process.
In the context of Strategic Human Resource Management, business strategy serves as the guiding framework for all people-related activities. It provides clear direction by incorporating both internal capabilities and external environmental factors into the long-term planning process. This integration ensures that human resource initiatives are not isolated events but are purposefully designed to support the overarching goals of the enterprise.
5. (D) To make their strengths effective and their weaknesses irrelevant
Peter F. Drucker posited that the fundamental task of management is to harmonize the collective efforts of individuals to achieve shared objectives. The ultimate goal of this management function is to utilize the unique strengths of each employee effectively while rendering their individual weaknesses irrelevant to the final outcome. This approach fosters a high-performing environment centered on collaboration and organizational productivity.
6. (C) Becoming a policy police and regulatory watchdog that handles bureaucratic aspects of benefits exclusively.
Dave Ulrich redefined the mandate for human resource professionals, moving them away from being bureaucratic policy enforcers or regulatory watchdogs. Instead, the modern role requires becoming strategic partners in business execution, employee advocates, and agents of continuous transformation. Focusing exclusively on administrative benefits and policing procedures contradicts the strategic intent of building organizational capacity and a culture responsive to change.
7. (B) People desire responsibility and achievement while performing their assigned tasks.
Frederick Taylor's scientific management approach was based on the assumption that workers are primarily motivated by monetary rewards and prefer tasks that are simplified and repetitive. It did not assume that individuals naturally seek responsibility or personal achievement in their roles. Instead, it emphasized strict adherence to defined processes and technology, viewing the human element as a component to be controlled.

welfare or legal compliance but represent a progressive reinforcement of democracy, liberalism, and humanism within the workplace. Adopting this philosophy ensures that the organization treats its employees as stakeholders.

- 39.** (B) Strategic HR approach where line managers act as local administrators for employee-specific issues.

In a strategic human resource approach, routine and employee-specific issues like leave approvals are delegated to line managers, who act as local administrators. This allows the core human resource team to focus on high-level strategic activities, such as designing corporate talent management policies. This shift ensures that people management is integrated into day-to-day operations while specialized professionals concentrate on value-added initiatives.

- 40.** (A) Banks consider HRD a specialized discipline where only credentialed professionals can lead. In many banks, human resource functions are often not performed by specialized professionals, which distinguishes them from other corporate entities. While managing human resources requires unique skills and training, the sector has historically lagged in treating it as a purely credentialed discipline. Frameworks like the CII HR Competency Model have been developed to address this gap by defining the required competencies.

- 41.** (A) I and II only

To succeed in Strategic Human Resource Management, bank professionals must unlearn the tradition of functioning in isolation and instead develop resilient policies that align with corporate goals. Assessing the return on investment in human capital is actually a critical part of the due diligence process in this modern framework. These changes ensure that the function remains relevant and contributes to competitive advantage.

- 42.** (B) Through division of labour and function, and through a hierarchy of authority and responsibility
Edgar Schein defines an organization as the rational coordination of individual activities aimed at achieving a common purpose.

According to this definition, coordination is fundamentally achieved through two mechanisms: the division of labour and functions, and the establishment of a clear hierarchy of authority and responsibility. This structure ensures that diverse efforts are systematically aligned and managed to fulfill goals.

- 43.** (A) P-2, Q-4, R-1, S-3

The core people role in human resources focuses on selection, career development, and retention. The organizational value-add role involves implementing technology services and creating learning environments. Business transformation is achieved by fostering a flexible work culture and assessing the return on investment in human capital. Finally, the broad functions encompass the comprehensive range of specific roles across the domains.

- 44.** (C) The shift from a 'rational-economic man' perspective to a 'social man' perspective

The Hawthorne Studies marked a pivotal shift in people management by challenging the prevailing rational-economic man view, which assumed workers were motivated only by money. The research introduced the social man perspective, highlighting that social factors, informal group dynamics, and employee feelings significantly impact productivity. This paradigm shift led to the human relations movement, emphasizing the importance of psychological and social needs.

- 45.** (B) Becoming a champion for employees

In Dave Ulrich's framework, the role of becoming a champion for employees involves actively representing their concerns to senior management. This role is balanced by the need to increase employee commitment and their ability to deliver results. By advocating for the workforce and ensuring their voices are heard during strategic decision-making, the professional helps build a more engaged and capable organization.

- 46.** (A) III, II, I, IV

The evolution of people management began with the early work of Robert Owen and Charles Babbage on the division of labour. This was followed by Frederick Taylor's conceptualization

16. (D) P-1, Q-4, R-2, S-3

The Indian Institute of Personnel Management, established in 1948, was instrumental in professionalizing the field. The National Institute of Labour Management aimed to foster positive employer-employee relations. The National HRD Network was formed in 1985 to share organizational experiences in development. Finally, the Indian Society for Training and Development was created in 1970 to provide academic support for training professionals.

17. (B) Both productivity and maintenance are accepted as primary and essential types of organisational goals.

Historically, people management faced a tension between profit-minded traditions and social welfare traditions. Contemporary organizations have moved beyond this duality by recognizing that both productivity and employee maintenance are essential goals. Modern management philosophy treats these objectives as complementary, understanding that a well-maintained and satisfied workforce is a prerequisite for sustaining long-term organizational efficiency and profitability in competitive markets.

18. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

The Tata Iron and Steel Company implemented highly progressive human resource practices at Jamshedpur that were far ahead of their time. This success was driven by J.N. Tata's visionary philosophy, which centered on building people within the organization as a core priority. These proactive practices established a benchmark, demonstrating that focusing on the human factor leads to sustainable organizational excellence.

19. (A) Succession planning – How do we identify and develop leaders for key roles?

Succession planning is a strategic process focused on identifying and developing potential leaders to fill key roles within an organization in the future. This ensures continuity and leadership stability. In contrast, recruitment aims at attracting candidates, performance appraisal

involves evaluating current contributions, and training focuses on enhancing skills. Each activity addresses a distinct but vital question in managing human resources.

20. (C) I and III only

During the 1980s, Indian academics introduced a new perspective on human resource development around the same time it gained prominence globally. This era was characterized by the government encouraging employee participation and even introducing worker shareholding schemes. The work of early experts was not focused on penal provisions but on creating developmental systems that enhanced organizational effectiveness through human potential.

21. (D) The use of employee knowledge, skills, and abilities in formulating and executing business strategy.

Strategic Human Resource Management is defined as the deliberate alignment of human resource practices with the overall goals of the organization. It involves utilizing the collective knowledge, skills, and abilities of employees to both formulate and execute the business strategy. This approach transforms human resources from an administrative support function into a central driver of competitive advantage and long-term organizational success.

22. (C) Develop and execute policy programmes and practices that align human activity to corporate objectives.

According to Abijit Gangopadhyay, the principal mandate for contemporary people management is to develop and execute policies and practices that align individual human activities with corporate objectives. This requires moving beyond traditional maintenance roles to ensure every aspect of the human resource function contributes to success. By integrating employee efforts with business goals, the function becomes a strategic partner.

23. (B) Creating culture, diagnosing organisational problems, and taking corrective steps.

In the framework proposed by Uday Pareek and T V Rao, the process role of human resource functionaries involves managing organizational dynamics. This includes creating a positive

workplace culture, diagnosing underlying organizational problems, and implementing corrective measures. This role emphasizes qualitative aspects of management, ensuring the internal environment supports employee engagement and facilitates cooperative action toward achieving long-term strategic objectives.

- 24.** (A) Data analytics usage – Exclusively used to monitor and decrease employee salary growth over time.

Modern data analytics in human resources is used to enhance productivity and innovation by creating employee-centric environments, not merely to limit salary growth. Other current trends include using artificial intelligence for efficient manpower acquisition and prioritizing workplace diversity and pay equality. These technologies and priorities aim to improve the overall employee experience and organizational effectiveness rather than focusing on cost-cutting measures.

- 25.** (A) P-2, Q-4, R-3, S-1

Uday Pareek and T V Rao categorized human resource roles into four distinct areas. The supportive role focuses on strengthening operating levels and consolidating organizational strengths. Systems development and research involve creating frameworks for people-related dynamics. The managerial role encompasses planning, recruitment, and assessment functions. Finally, the role of developing competence is dedicated to enhancing the technical and managerial skills.

- 26.** (B) Use of AI for efficient manpower acquisition and talent management.

Implementing AI-powered software to screen resumes is a prime example of using modern technology for efficient manpower acquisition. This automation handles the high volume of initial applications, allowing human resource professionals to shift their focus toward more value-added activities like candidate mentorship and strategic talent management. This illustrates the evolution of recruitment from manual administrative tasks to technologically enhanced strategic processes.

- 27.** (A) I and II only

The emerging perspective in people management emphasizes the integration of individuals within the organization to facilitate cooperative action. It necessitates that both staff and line managers act as partners in achieving developmental objectives. This modern view departs from the idea of the function as an isolated maintenance unit. Instead, it advocates for a collaborative approach where everyone contributes to building a workforce.

- 28.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Modern candidates increasingly prioritize organizations that offer opportunities for professional growth and a supportive work culture. To attract such talent, human resource managers must move beyond traditional responsibilities and focus on employer branding. By effectively communicating the organization's values and developmental environment, the brand becomes a powerful tool in recruiting high-quality individuals who align with the organization's strategic vision.

- 29.** (B) It is not exclusive to any profession; those with it can acquire professional knowledge and skills.

A strong human relation orientation is not the exclusive property of those with specific academic credentials. While specialized knowledge and skills are necessary for developing organizational systems, the ultimate success of these systems often depends on this underlying philosophical orientation. Individuals who possess this innate perspective can acquire the required professional skills, making it a critical trait for specialists and managers.

- 30.** (C) Mentoring, leadership, and creating a diverse workplace

When a financial institution promotes programs to close the gender pay gap, supports employee education, and advances women to executive roles, it is focusing on modern priorities. These actions demonstrate a commitment to mentoring, leadership development, and the creation of a diverse workplace. Such initiatives go beyond basic regulatory compliance, aiming

to build a robust organizational culture that values capital.

- 31.** (D) SHRM Competency Model – Primarily focuses on paternalistic welfare administration and strict disciplinary control.

The SHRM Competency Model does not focus on paternalistic welfare or strict disciplinary control; instead, it emphasizes leadership, navigation, ethical practice, and business acumen. Similarly, the CII HR Competency Model identifies interlinked behavioral and functional competencies, including business knowledge and change management. These modern frameworks are designed to equip professionals with the strategic and ethical capabilities needed to lead effectively.

- 32.** (D) The complete eradication of line managers from the banking sector

During the 1960s, personnel specialists expanded their influence due to the growth of unionism, increased state legislation, and the need for broader welfare policies. At no point was the role of line managers eradicated. Rather, specialists were introduced to support managers in navigating new legal complexities and industrial relations challenges. The function evolved through collaboration between specialized departments and operational managers.

- 33.** (B) I, II, and IV only

The Confederation of Indian Industry Human Resource Competency Model identifies nine specific behavioral competencies, which include drive, creativity, self-confidence, teamwork, influence, and problem-solving. These attributes are considered essential for effective leadership within the function. While financial perspective and building expertise are important, they are generally classified as functional or business-related competencies rather than purely behavioral traits within this framework.

- 34.** (A) I and II only

Article 16(1) of the Indian Constitution provides for equality of opportunity in matters of public employment. Guided by this constitutional principle, the Employment Exchanges (Compulsory Notification of Vacancies) Act of 1959 was enacted. This legislation requires

employers to notify certain vacancies to employment exchanges to facilitate transparent recruitment. It does not prohibit notification; rather, it makes reporting vacancies a mandatory requirement.

- 35.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

The rapidly changing environment in the banking sector requires institutions to improve their overall effectiveness, necessitating a significant shift in how they manage people. Consequently, human resource development departments can no longer operate as isolated units. They must play an active role in coordinating various activities and aligning people practices with broader business strategies to ensure resilience in a competitive market.

- 36.** (D) I, II, III, IV, and V

Recent findings indicate that Indian human resource professionals are moving away from traditional administrative roles toward more functional and strategic ones. This trend shows a convergence with western practices, driven by the expansion of Indian firms and exposure to multinational corporations. These studies demonstrate consistency in the key roles and competencies required for success in a globalized and highly competitive environment.

- 37.** (D) Must have a partial attitude towards management to ensure business goals are met. Successful human resource professionals must maintain an impartial and objective attitude toward management, workers, and work groups to be effective. A partial attitude favoring management undermines trust and hinders conflict resolution. Essential qualities instead include freedom from personal bias, excellent communication skills, and empathetic listening, where credit for success is shared with subordinates to foster a collaborative and motivated workforce.

- 38.** (C) Managerial culture and philosophy

According to Sheth, elements such as human sensitivity, trust in people, and participative management are integral components of an enterprise's managerial culture and philosophy. These values are not merely part of routine

8. (A) The difference between existing system abilities and what is expected of them.
A competency gap represents the discrepancy between the current skills of a workforce and the requirements needed to achieve organizational objectives. In the modern knowledge-driven era, marked by rapid change and unpredictability, identifying these gaps is crucial. Addressing such deficiencies through targeted learning and development ensures that the organization remains resilient and competitive amidst evolving and complex industry demands.
9. (A) P-3, Q-1, R-4, S-2
Charles Babbage was an early advocate of the division of labour, while Frederick Taylor is renowned for developing time and motion studies. Elton Mayo's Hawthorne Studies introduced the social man perspective, emphasizing the importance of informal groups. Chris Argyris focused on dimensions of motivation rooted in growth needs. These thinkers collectively contributed to the theoretical foundations of modern human resource management.
10. (B) I, II, and IV only
Specialized human resource courses like the Master of Human Resource Management provide deep expertise that general business programs may lack. These curricula integrate intensive people-management topics with a broad understanding of other business disciplines. Furthermore, these programs use simulations to prepare students for professional roles. Contrary to discouraging networking, such professional courses often actively foster connections among future industry practitioners.
11. (C) Both Statement I and Statement II are correct.
The historical foundation of organizational thought encompasses two distinct but related streams. The first stream focuses on the systematic organization of activities to achieve specific work processes and efficiency. The second stream seeks to understand the relationship between the individual and the activity defined as work. Both perspectives are essential for creating a balanced framework addressing both operational and human needs.
12. (A) II, III, IV, I
The evolution of the human resource function in India began with the appointment of Labour Welfare Officers under the Factories Act of 1948. This era also incorporated legalistic aspects through the Industrial Disputes Act of 1947. Subsequently, the demand for personnel specialists grew as people management systems expanded. Finally, the transformative Human Resource Development approach was introduced by leading academicians.
13. (A) I and II only
In the early history of people management in India, textile mills often established specialized units known as Time Offices to manage labour. A significant milestone occurred in 1953 when Professor A. K. Rice conducted experiments on group behavior in the Ahmedabad mills. While the industrial revolution influenced management, the term personnel officer did not gain extensive use until much later.
14. (C) Industrial Disputes Act of 1947
By the early 1950s, the Industrial Disputes Act of 1947 began to significantly influence people management in India. This legislation introduced formal legalistic aspects to the role of labour officers, requiring them to handle industrial relations, disputes, and compliance. This shift marked the transition from purely welfare-oriented functions to a more complex role involving legal frameworks and formal conflict resolution.
15. (D) The development of professionals under HRD is a one-time process aligned solely with initial organisational requirements.
Professional development under the Human Resource Development framework is a continuous, ongoing process rather than a one-time event aligned only with initial requirements. While Human Resource Management covers routine administrative functions, Human Resource Development focuses on long-term interventions for organizational climate and employee growth. There is no conflict between these; they simply emphasize different aspects of the same management system.

of scientific management. Later, the Hawthorne Studies conducted by Elton Mayo introduced the social man perspective. Finally, researchers like Maslow and Herzberg highlighted dimensions of motivation rooted in growth needs, forming the basis for development.

47. (D) Ensure that HR activities help the organisation serve customers or increase shareholder value.

In modern banking, Human Resource Relationship Managers are tasked with ensuring that all people-related activities directly support the organization's ability to serve customers or increase shareholder value. This role moves beyond traditional administrative or legalistic functions to focus on strategic alignment. By bridging the gap between human resource initiatives and business outcomes, these managers ensure that the workforce is effectively utilized.

48. (D) Because human resources respond dynamically, where small treatment variations create significant waves in complex settings.

In a volatile, uncertain, complex, and ambiguous environment, simplistic mechanical management approaches are largely irrelevant. Modern organizations recognize that human resources respond dynamically to their surroundings, where small variations in treatment can lead to significant and unpredictable consequences. This complexity requires flexible and sophisticated management strategies that account for the evolving needs and behaviors of employees rather than relying on rigid procedural controls.

49. (B) Identifying and filling competency gaps
When a bank identifies that its relationship managers lack the technical skills to handle new digital products, it has recognized a competency gap. The human resource department's effort to provide specific training to fill this void is a key strategic function. This process ensures that the workforce remains capable of executing the business plans, directly linking individual development to successful rollouts.

50. (C) The evolution of approaches is characterised by the addition of dimensions rather than substitution.

The evolution of human resource management is characterized by the addition of new dimensions, such as development and strategic alignment, rather than the total substitution of older functions. Traditional administrative and maintenance tasks do not disappear; they become routinized and stabilized. The function grows more complex as new strategic roles are layered on top of foundational activities, creating a comprehensive approach.

51. (A) I, II, III, and V only

Modern human resource professionals must balance their attention between internal employees and delivering value to external customers. They need to be equipped with information technology expertise and possess a missionary zeal for continuous learning. Functioning in isolation is no longer an option in a rapidly changing environment. This broader focus ensures the function remains a dynamic partner in driving organizational success.

52. (D) The human relations movement and 'social man' perspective

The introduction of team-building and cross-functional interactions to address low morale caused by rigid procedural controls aligns with the human relations movement. This perspective recognizes that employees are social beings whose performance is influenced by interpersonal relationships and a sense of belonging. By shifting focus from purely scientific management to social needs, the plant manager adopted the social man perspective.

53. (D) They were responsible for strategic business planning and corporate vision alignment.

Initially, Labour Welfare Officers in India were not responsible for strategic business planning or corporate vision alignment. Their duties were primarily administrative and custodial, including maintaining muster rolls, leave records, and managing canteens. They often functioned as recruitment officers and were responsible for maintaining discipline on the shop floor. The strategic dimension of

managers, but about using data-driven insights to improve decision-making and ensure the workforce remains strategically aligned.

70. (C) Personality

When a committee evaluates a candidate based on initiative, a positive attitude toward others, imagination, creativity, and a concern for excellence, they are focusing on personality attributes. According to Pareek and Rao, these traits are foundational for human resource professionals, as they influence how effectively an individual can interact with others, inspire change, and drive a culture of excellence.

- 71. (B) Events in the Industrial era in the US or UK during the British Raj had ripples felt in India, leading to similar stages of evolution.**
The evolution of people management in India was not isolated but mirrored stages experienced in the US and UK. Significant historical events, such as the industrial revolution and world wars, created ripples that influenced labour welfare and management practices in India during the British Raj. This global context led to the establishment of similar roles and frameworks, eventually progressing toward modern practices.

72. (C) 2004

The Confederation of Indian Industry developed its comprehensive Human Resource Competency Model in 2004. This model was designed to professionalize the function by listing 19 interlinked competencies required for successful heads. By defining both behavioral and functional competencies, the model provided a benchmark for excellence. It addressed the need for professionals to have skills ranging from business knowledge to personal influence.

- 73. (A) Specialists addressing technical managers' inadequacies in people management.**
In the 1960s, increasing complexity in labour laws and union activities meant technical managers often lacked specialized knowledge to handle industrial relations issues. Hiring personnel officers was a response to these inadequacies, allowing specialists to manage legalistic aspects. This shift highlighted the growing importance of professional expertise in people management, ensuring organizations

could navigate regulatory challenges while maintaining efficiency and industrial peace.

74. (B) Functional HRM specialist

Studies on Indian human resource professionals indicate a shift toward the role of the functional HRM specialist, showing convergence with western practices. This role focuses on applying specialized knowledge to manage core people systems strategically. As Indian companies expand globally, reliance on purely administrative roles decreases in favor of specialists who can contribute more directly to organizational effectiveness and competitive advantage.

75. (A) I, II, and III only

The 1980s in India were marked by the rise of hi-tech industries and knowledge workers, leading to an enlarged outlook for the personnel function. Human Resource Development emerged as a distinctive subsystem of management during this period. Contrary to banning participation, the government encouraged employee participation and worker shareholding schemes. These changes reflected a recognition of human potential in driving progress.

- 76. (C) Interact regularly with technical experts to remain familiar with technological developments affecting the organisation.**

To remain effective, human resource professionals should regularly interact with technical experts. This interaction helps them stay familiar with technological developments affecting work processes and the workforce. By understanding these changes, they can better design training programs that bridge competency gaps. This collaborative approach ensures that people management practices are relevant and aligned with the organization's evolving operational needs and industry environment.

77. (B) P-4, Q-3, R-1, S-2

Peter Drucker emphasized making human strengths effective, while Elton Mayo is famous for the Hawthorne Studies on behavior. Dave Ulrich redefined the mandate for human resource professionals to become strategy partners and change agents. Sheth posited that

- 62.** (C) Every manager having to implement a component of the HR function through day-to-day actions.

When a line manager, such as a regional head, takes responsibility for employee potential assessment and culture-building, they are implementing a component of the human resource function. This reflects the reality that people management is not solely the domain of a specialized department but is a daily responsibility for every manager. This integration ensures that developmental practices are applied directly.

- 63.** (D) IIPM and NILM merged in 1982 to form the National Institute of Personnel Management.

In 1980, the Indian Institute of Personnel Management and the National Institute of Labour Management merged to form the National Institute of Personnel Management. This merger created a unified professional body dedicated to advancing the standards and practices of people management in India. This consolidation was a significant step in professionalization, providing a stronger collective platform for research and training.

- 64.** (C) Both Statement I and Statement II are correct.

As the human resource function evolved from personnel management to human resource development, it became clear that the function cannot be delinked from line managers. Line managers are the actual delivery points where people management policies and practices are implemented on a daily basis. Recognizing this partnership is essential for maturing, as it ensures strategic initiatives are effectively executed throughout all levels.

- 65.** (C) I, III, and IV only

Modern human resource departments leverage technology to broaden engagement through recruitment marketing and mentorship. They use data analytics to track key metrics like turnover rates, training expenses, and offer acceptance. These databases help professionals understand behavioral patterns related to retention and engagement. Contrary to being restricted to back-office payroll, artificial

intelligence is increasingly used in employee-facing applications to enhance experience.

- 66.** (C) Role of Developing Competence

By designing workshops that build tellers' technical skills alongside their resilience and stress-management capabilities, the human resource manager is fulfilling the role of developing competence. According to Pareek and Rao, this role focuses on enhancing technical, managerial, and helping competencies. Such interventions are crucial for helping employees adapt to significant changes, like new core banking software, while maintaining performance and well-being.

- 67.** (D) I, II, III, IV, and V

To improve the employee experience and workforce productivity, modern human resource managers track metrics including offer acceptance rates, training expenses, turnover rates, human capital risk, and revenue per employee. Analyzing data from these key performance indicators help organizations reduce attrition and identify potential vulnerabilities. This data-driven approach allows for effective solutions that enhance both employee satisfaction and overall business performance.

- 68.** (D) Faith in human beings and their capabilities

While having faith in human beings and their capabilities is a critical attribute for human resource development, it is categorized as a personality or philosophical trait rather than a technical one. Technical attributes instead include specific professional knowledge and skills, such as understanding performance appraisal systems, designing training programs, and being proficient in behavioral research techniques that allow for managing formal systems.

- 69.** (D) So that effective solutions may be applied right away or problematic situations avoided.

Human resource departments use data analytics to identify future risks and vulnerabilities so they can proactively apply solutions or avoid problematic situations. This forward-looking approach enables the organization to manage human capital risk more effectively and maintain stability. It is not about replacing line

the other as Reason (R). Examine these two statements carefully and select the correct answer using the codes given below.

Assertion (A): Succession planning and replacement planning are identical concepts focusing on short-term fixes.

Reason (R): Succession planning concerns itself with building a series of feeder groups up and down the entire leadership pipeline, whereas replacement planning focuses narrowly on specific back-up candidates.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2014

27. What is the most appropriate reason for an organisation to implement Strategic Human Resource Management?
- (A) To align human resource efforts with organisational goals to ensure performance-oriented outcomes.
 - (B) To automate the basic administrative maintenance functions including payroll and attendance tracking.
 - (C) To remove the requirement for line managers to involve themselves in employee development cycles.
 - (D) To minimize the total budgetary allocation intended for employee welfare and health-based schemes.

Oct/Nov 2018

28. Referring to the case of the bank merger described in Question 67, the shift of the HR department to a strategic partner aligns with the contemporary view that managing people encompasses the totality of human beings. In this context, what is the most critical support required to foster the employees' sense of 'belonging'?
- (A) The complete outsourcing of administrative HR functions to external third-party service providers.

- (B) The increased use of coercive power by immediate line managers to ensure operational compliance.
- (C) An open organisational culture that promotes trust, mutual respect, and psychological safety.
- (D) The restriction of all career progression paths to strictly vertical and hierarchical movements.

May/June 2007

29. What is the most appropriate method for an individual to increase the "Arena" (open-self) in the Johari Window?
- (A) By deliberately withholding personal opinions to maintain professional distance.
 - (B) By receiving feedback from others and making more self-disclosures.
 - (C) By isolating themselves from group dynamics to focus on technical skills.
 - (D) By exerting coercive power over colleagues to control the flow of information.

Oct/Nov 2025

30. Read the following case study and answer the questions that follow:
- Global Bank runs a major in-house training centre. Recently, they launched an intensive program on 'Advanced Data Analytics' for mid-level managers. The trainer, an external consultant, noticed that the participants had strong practical banking experience but varied technical backgrounds. To ensure adult learning principles were applied, the trainer used case studies and group discussions rather than passive lectures. Six months post-training, the HR head wanted to evaluate if the training investment yielded tangible business results.*
- The trainer's decision to use case studies and group discussions over passive lectures aligns best with which principle of adult learning?
- (A) Traditional pedagogy that emphasizes a child-like and rigid adherence to a standard curriculum.
 - (B) Mentorship models that rely strictly on maintaining a one-on-one dependency-based relationship.
 - (C) Experiential learning which focuses on using past experience and hands-on training methods.
 - (D) Mechanistic learning theories that require

the function is rooted in values of democracy and humanism. These perspectives together form the modern understanding of how managing people is central.

78. (A) I, II, IV, and V only

Key qualities for human resource professionals include strong leadership, high intelligence, and an impartial attitude toward all workplace groups. They must possess the integrity to own responsibility for both their own failures and those of their subordinates. Imagination is also a vital trait, as it allows for creative problem-solving. These attributes ensure the professional can navigate challenges while maintaining trust and improvement.

79. (D) Process Role

In a VUCA environment, an HR head focusing on coping competence and continuous organizational development is fulfilling the process role. As defined by Pareek and Rao, this role involves managing organizational dynamics, creating a supportive culture, and diagnosing problems. This approach prioritizes flexibility over rigid procedures, ensuring the workforce can adapt to rapid regulatory shifts and maintain effectiveness in uncertain conditions.

80. (A) Only Statement I is correct.

The traditional model of people management in banks placed the sole responsibility for redressing employee-specific issues on specialized human resource professionals. However, the modern strategic model shifts this responsibility, making line managers the first point of contact. This transition allows the central team to focus on strategic policy-making. Integrating employee management into daily duties ensures direct and efficient resolution of issues.

CHAPTER 11

Development of Human Resources

May/June 2021

1. Referring to the case of the IT project team described in Question 79, Rahul's method of facilitating open discussions and respecting everyone's views to reach a unified approach without forcing minority compromise is an example of achieving:
(A) Groupthink
(B) True Consensus
(C) Ego-Defensive behaviour
(D) Crossed Transactions

Oct/Nov 2010

2. Identify the incorrect pair regarding the components of Emotional Intelligence:
(A) Self-Awareness - Recognizing one's own mood, emotions, and their effects on others.
(B) Empathy - Understanding the emotional make-up of others.
(C) Self-Regulation - Being entirely driven by external rewards like money and status.
(D) Social Skills - Proficiency in managing relationships and building networks.

May/June 2018

3. How is 'Education' formally defined in the context of learning and development?
(A) A more formal way to broaden one's knowledge to prepare the individual for a different but identified job.
(B) The acquisition of knowledge, skills, or attitudes through experience, study, or teaching.
(C) Learning aimed at teaching immediately applicable knowledge to be used in a specific job.
(D) Learning aimed at the long-term broadening of knowledge to fit one's personal development goals.

Oct/Nov 2006

4. Consider the following statements regarding group dynamics and consensus:
I. Consensus implies a negative emotion

where those in the minority are forced to compromise.

- II. True consensus means debating over the pros and cons with full respect for each other, rather than just taking a majority view.

Which of the above statement(s) is/are correct?

- (A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2023

5. What defines 'Talent Management' in a progressive organisational environment?
(A) Managing administrative cycles for employee payroll and benefits based on performance.
(B) Evaluating daily operational metrics and productivity standards for non-managerial staff.
(C) Arranging ad-hoc training sessions to meet immediate regulatory compliance requirements.
(D) Strategically planning human capital needs to improve long-term business value.

Oct/Nov 2012

6. Consider the following statements regarding Locus of Control:
I. Individuals with an external locus of control generally anticipate events and do not wait for things to happen.
II. Feedback helping a person realise that their own efforts contributed to success can reorient an external locus of control toward internality.

Which of the above statement(s) is/are correct?

- (A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2015

7. How many career anchors have been identified in the framework of career development?
- (A) Three
 - (B) Five
 - (C) Eight
 - (D) Ten

Oct/Nov 2024

8. Consider the following statements regarding the methods of data collection for Job Analysis:
- I. The interview method should view the role of the job holder in the overall context of their unit/department.
 - II. The questionnaire method is generally more time-consuming and expensive than the interview method.
 - III. Observation generally requires work sampling, but faces the challenge that the job holder knows they are being observed.
- Which of the above statement(s) is/are correct?
- (A) I and II
 - (B) II and III
 - (C) I and III
 - (D) I, II, and III

May/June 2005

9. Which authors are credited with the conceptualisation of the 'Johari Window' framework for self-awareness?
- (A) Luft and Ingham
 - (B) Pareek and Rao
 - (C) Leftcourt and Levenson
 - (D) French and Raven

Oct/Nov 2019

10. Consider the following effective ways to boost employee morale:
- I. Implementing an open-door policy to allow employees to express concerns.
 - II. Withholding positive customer reviews to keep employees grounded.
 - III. Mounting a large scoreboard to recognize top performers.
- Which of the above statement(s) is/are correct?
- (A) I and II
 - (B) I and III
 - (C) II and III
 - (D) I, II, and III

May/June 2011

11. How do Cognitive theories of learning conceptually differ from Mechanistic (behaviourist) theories?
- (A) Cognitivists view learners as active problem-solvers, while mechanists see them as responding to stimuli.
 - (B) Cognitivists argue that learners are passive observers, while mechanists emphasize complex brain functions.
 - (C) Cognitivists focus on biological maturity, while mechanists prioritize individual freedom and choice.
 - (D) Cognitivists rely on external reinforcement, while mechanists focus on internal psychological drives.

Oct/Nov 2020

12. Consider the following specific goals of Human Resource Development:
- I. Developing capabilities of each employee as an individual.
 - II. Developing the dyadic relationship between each employee and their supervisor.
 - III. Developing team spirit and functioning in every organisational unit.
 - IV. Suppressing the self-renewing capabilities of the organisation.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III
 - (B) I, III, and IV
 - (C) II, III, and IV
 - (D) I, II, III, and IV

May/June 2022

13. What is the fundamental conceptual difference between succession planning and replacement planning?
- (A) Succession planning handles immediate vacancies, while replacement planning is a long-term strategy.
 - (B) Succession planning develops leadership pipelines, while replacement planning identifies specific back-ups.
 - (C) Succession planning is for junior employees, while replacement planning targets the executive level.
 - (D) Succession planning measures recruitment costs, while replacement planning tracks training hours.

Oct/Nov 2023

14. Consider the following interpersonal needs for inclusion:

- I. Establishing a psychologically comfortable relationship somewhere on a dimension of initiating interaction.
- II. Eliciting behaviour from others that controls one's own behaviour completely.
- III. Eliciting behaviour from others on a psychologically comfortable dimension.
- IV. Establishing and maintaining a feeling of mutual interest.

Which of the above statement(s) is/are correct?

- (A) I, II, and III
- (B) I, III, and IV
- (C) II, III, and IV
- (D) I, II, III, and IV

May/June 2013

15. Which statement correctly differentiates Job Description from Job Specification?

- (A) Job Description details the educational qualifications required, while Job Specification defines the working conditions.
- (B) Job Description is used solely for wage settlements, while Job Specification is used to evaluate peer relationships.
- (C) Job Description focuses on the individual's personality characteristics, while Job Specification outlines the hazardous conditions of the workplace.
- (D) Job Description records the duties and purpose of the job, while Job Specification defines the knowledge, skills, and abilities required.

Oct/Nov 2021

16. Consider the following objectives achieved through effective succession planning:

- I. Improve employee commitment and retention.
- II. Meet the career development expectations of existing employees.
- III. Counter the increasing difficulty and costs of recruiting employees externally.
- IV. Focus narrowly on identifying back-up candidates for immediate scenarios.

Which of the above statement(s) is/are correct?

- (A) I, II, and III

- (B) I, II, and IV
- (C) II, III, and IV
- (D) I, III, and IV

May/June 2024

17. Which statement correctly describes the Adult ego state in Transactional Analysis?

- (A) It dictates ethical conduct by preaching and nurturing others through strict conscientious regulation.
- (B) It involves logical, analytical, and unemotional behaviour based on objective facts and probabilities.
- (C) It focuses on emotional expression driven by natural internal impulses and creative intuitive thought.
- (D) It emphasizes social adaptation and the pursuit of immediate enjoyment in interpersonal transactions.

Oct/Nov 2008

18. Consider the following assumptions and principles associated with learning and adult learning:

- I. Learning is enhanced when the learner is motivated.
- II. Learning requires feedback to improve upon mistakes.
- III. Reinforcement increases the likelihood that a learned behaviour will be repeated.
- IV. Practice increases a learner's performance.
- V. Learning must remain purely theoretical and not transferable to the job.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV
- (B) II, III, IV, and V
- (C) I, III, IV, and V
- (D) I, II, IV, and V

May/June 2006

19. Which statement is incorrect regarding the functions of attitudes at the workplace?

- (A) The Knowledge Function suggests that attitudes are always formed using empirical and objective facts.
- (B) The Adjustment Function assists employees in adapting to their specific work environment and supervision.
- (C) The Ego-Defensive Function helps employees protect their self-image when facing external challenges.

- (D) The Value-Expression Function allows individuals to voice attitudes based on their personal ethics.

Oct/Nov 2017

20. Consider the following statements describing the ways to overcome barriers and change attitudes:

- I. Providing new information can change a person's beliefs and subsequently their attitudes.
- II. High degrees of fear arousal are the most effective way to change attitudes because the message becomes highly believable.
- III. Co-opting dissatisfied individuals by getting them involved in improving things can successfully change their attitude.

Which of the above statement(s) is/are correct?

- (A) I and III
- (B) I and II
- (C) II and III
- (D) I, II, and III

May/June 2008

21. Which statement is incorrect regarding Employee Morale Boosters?

- (A) Keeping score by mounting a large scoreboard helps recognise top performers.
- (B) Sharing success stories and updates on business milestones improves engagement.
- (C) Firing a staff member whose negativity brings down the group can sometimes be necessary to boost overall morale.
- (D) Allowing employees to remain isolated from organisational surveys fosters higher long-term morale.

Oct/Nov 2013

22. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the codes given below.

Assertion (A): Job Evaluation is treated as an independent activity outside Job Analysis.

Reason (R): The increasing complexities of jobs and their linkage with the wage structure make it a distinct exercise.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

- (C) Assertion (A) is true, but Reason (R) is false.

- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2019

23. Which of the following is NOT one of the principles of adult learning?

- (A) Self-Directed
- (B) Pedagogy
- (C) Experiential
- (D) Mentorship

Oct/Nov 2007

24. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the codes given below.

Assertion (A): In organisational interpersonal interactions, crossed transactions are highly desirable to improve communication effectiveness.

Reason (R): A crossed transaction occurs when a stimulus from one ego state receives a response from an unexpected or different ego state, thereby blocking the transaction.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

- (C) Assertion (A) is true, but Reason (R) is false.

- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2025

25. Which of the following is NOT one of the four quadrants in the Johari Window?

- (A) Transparent
- (B) Arena
- (C) Blind
- (D) Unknown

Oct/Nov 2016

26. The following question consists of two statements, one labeled as Assertion (A) and

people management emerged much later as the function transitioned.

54. (C) Sheth

Sheth argued that as employees work within an enterprise, they develop a significant stake in its success. Therefore, their individual motivation, development, and growth become critical factors in the overall progress and sustainability of the organization. This perspective treats people management as more than just a routine function; it is seen as a foundational philosophy that integrates humanism into core growth.

55. (B) 'Model employers' adopting a professional style

In the 1970s, many Indian firms transitioned from paternalistic care to establishing professional personnel departments to project themselves as model employers. This move was driven by a desire to adopt modern, standardized management practices and demonstrate a professional approach to labour relations. By formalizing these functions, organizations aimed to improve efficiency and harmony while aligning with the emerging professional standards.

56. (A) I and II only

De'Cenzo classified human resource sub-modules into acquisition, development, motivation, and maintenance. Similarly, Pareek and Rao identified planning and administration, human resource development, job and salary management, and workers' affairs as key areas. Conventional people management typically focuses on administrative components, while more modern developmental systems such as career planning and performance appraisal are the core of development subsystems.

57. (C) Both Statement I and Statement II are correct.

To be recognized as a profession, a field must possess a corpus of knowledge, require a period of apprenticeship, and follow a code of conduct. The Indian Institute of Personnel Management is credited by the National Commission on Labour for establishing personnel management as a distinct profession in India. These factors combined to elevate the role from simple administrative work to a discipline.

58. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

As human resource management matures, traditional functions like basic administration and record-keeping are not eliminated. Instead, these earlier aspects become stabilized and routinized within the organization's daily operations. Because they are handled through established systems, they may appear less crucial than newer, dynamic dimensions. However, they remain the necessary foundation upon which more advanced people management practices are built.

59. (A) Information Technology Act, 2000

While Article 16(1) of the Constitution, the Employment Exchanges Act of 1959, and the Interstate Migrant Workmen Act of 1979 specifically address employment and employee welfare, the Information Technology Act of 2000 does not. The IT Act focuses on legal frameworks for electronic governance and cybercrimes. Although technology impacts the workplace, this specific legislation is not designed to regulate employer-employee relationships.

60. (B) I, II, IV, and V only

The professionalization of human resources introduced the debate over whether it should be a specialist function or handled by line managers. It requires both specialized skills and a human relations orientation. Historically, the function focused on attendance and shop-floor safety. Importantly, the necessary philosophical orientation is not exclusive to human resource professionals; it can be adopted by any manager.

61. (B) T V Rao

T V Rao was a major proponent of the idea that human resource development should not be an isolated department but must become the business of everyone in the organization. This perspective emphasizes that developing people is essential for organizational growth and requires the active involvement of all managers. This philosophy transformed human resource management into a collaborative, institution-wide effort for success.

passive learner conditioning to a specific stimulus.

May/June 2012

31. Primary focus of identifying “Job Families” in career path planning?
- (A) To ensure staff placement is based entirely on the geographical and location-based preferences.
 - (B) To categorize the workforce based on their perceived level of external or internal locus of control.
 - (C) To establish a mandatory age threshold for when employees must transition into sponsorship roles.
 - (D) To group jobs with similar skill requirements to help in the logical sequencing of assignments.

Oct/Nov 2014

32. Referring to the case of Global Bank’s training program described in Question 30, according to the Systematic Approach to Training (SAT), what should have ideally preceded the preparation of this specific training plan to ensure the correct participants were selected?
- (A) Evaluation of Training
 - (B) Selection of External Faculty
 - (C) Succession Planning
 - (D) Training Need Analysis (TNA)

May/June 2020

33. Arrange the stages of group formation and behaviour in the correct chronological sequence:
- I. Norming
 - II. Performing
 - III. Forming
 - IV. Conforming
 - V. Storming
- (A) III, I, V, IV, II
 - (B) III, V, I, IV, II
 - (C) V, III, I, II, IV
 - (D) III, V, IV, I, II

Oct/Nov 2015

34. Referring to the case of Mr. Sharma and Amit described in Question 73, when Mr. Sharma’s stimulus from his dominant ego state received a defensive response from Amit’s unexpected ego state causing a communication breakdown, this interaction is best described as:

- (A) A Complementary Transaction
- (B) A Synergistic Transaction
- (C) A Crossed Transaction
- (D) A Radial Movement

May/June 2009

35. Match the learning concepts in List I with their descriptions in List II:

List I: (Concepts)

- P. Learning
- Q. Training
- R. Development
- S. Education

List II: (Descriptions)

1. Aimed at teaching immediately applicable knowledge to be used in a specific job.
 2. The acquisition of knowledge, skills, or attitudes through experience, study, or teaching.
 3. A formal way to broaden one’s knowledge, applicable for a long time, often for a different identified job.
 4. Revolves around broadening knowledge aimed at long-term personal and future organisational goals.
- (A) P-1, Q-2, R-3, S-4
 - (B) P-2, Q-1, R-4, S-3
 - (C) P-3, Q-4, R-1, S-2
 - (D) P-2, Q-4, R-1, S-3

Oct/Nov 2011

36. Read the following case study and answer the questions that follow:

Priya is a high-performing credit officer who masterfully manages technical functions. Recently, she was offered a Zonal Head position (a managerial role) but hesitated, preferring to remain in her specialized credit domain.

Priya’s hesitation to take up the Zonal Head role indicates that her dominant ‘Career Anchor’ is most likely:

- (A) Managerial Competence
- (B) Autonomy
- (C) Security
- (D) Technical/Functional Competence

May/June 2010

37. Match the Power Bases in List I with their sources in List II:

List I: (Power Bases)

- P. Legitimate Power
- Q. Referent Power

- R. Expert Power
- S. Reflected Power

List II: (Sources)

1. Gained by virtue of proximity to a power source, enjoying extra power through proxy.
2. Drawn from the job description and delegation from top management.
3. Rests largely on trust and modeling behaviour, leading by example.
4. Gained by virtue of professional competence, skills, and pragmatic credibility.

- (A) P-2, Q-3, R-4, S-1
- (B) P-1, Q-4, R-2, S-3
- (C) P-3, Q-1, R-4, S-2
- (D) P-4, Q-2, R-3, S-1

Oct/Nov 2005

38. Referring to the case of Priya described in Question 36, if she is currently at a stage where she develops ideas, manages complex technical functions, and assumes responsibility for her subordinates' work in the credit department, she is acting in the role of a:
- (A) Apprentice
 - (B) Colleague
 - (C) Mentor
 - (D) Sponsor

May/June 2017

39. Identify the correct pair regarding the levels of Training Evaluation:
- (A) Reaction Level - Measuring financial benefits or return on training investment.
 - (B) Behaviour Level - Observation of transfer of learning to work performance.
 - (C) Learning Level - Trainees apply the learning to actual workplace situations.
 - (D) Functioning Level - Trainees undergo written tests before and after training.

Oct/Nov 2009

40. Referring to the case of the IT project team described in Question 79, by using his extensive academic achievements and technical experience to influence the team, Rahul is primarily utilizing which base of power?
- (A) Knowledge / Expert Power
 - (B) Coercive Power
 - (C) Reward Power
 - (D) Reflected Power

May/June 2016

41. Identify the incorrect pair regarding Career Anchors:
- (A) Autonomy - Restricting oneself to a specific location for the purpose of job security and safety.
 - (B) Technical/Functional Competence - Mastering technical skills required for a specific professional area.
 - (C) Managerial Competence - Driving one's career toward higher positions within the leadership hierarchy.
 - (D) Creativity - Pursuing the development of new products or ventures to achieve professional success.

Oct/Nov 2022

42. What defines 'Job Evaluation' within the framework of human resource management?
- (A) Detailing specific tasks and technical requirements needed to execute a role effectively.
 - (B) Determining a job's relative importance and responsibilities for fair wage settlements.
 - (C) Evaluating personal attributes and educational qualifications necessary for a specific position.
 - (D) Mapping a role's hierarchical placement to maintain consistency in the organisational design.

May/June 2021

43. Consider the following statements regarding the Human Resource Information System (HRIS) as a support system for learning and development:
- I. HRIS stores data regarding on-the-job experience, placements, and skills acquired by way of professional qualifications.
 - II. A comprehensive updated HRIS serves as a useful database that inhibits developmental efforts.
- Which of the above statement(s) is/are correct?
- (A) Only I
 - (B) Only II
 - (C) Both I and II
 - (D) Neither I nor II

Oct/Nov 2010

44. How is an 'Attitude' precisely defined in the context of organisational behaviour?
- (A) An individual's innate emotional intelligence and self-awareness used to navigate workplace challenges.
 - (B) The underlying philosophical belief system that drives an organisation's cultural transformation.
 - (C) A persistent tendency to feel and behave in a particular way towards some object.
 - (D) A temporary emotional response triggered by specific transactional interactions with peers.

May/June 2018

45. Consider the following statements regarding the Three Cs of Talent:
- I. Competence deals with the head/mind (being able to do).
 - II. Contribution deals with hands and feet (action).
- Which of the above statement(s) is/are correct?
- (A) Only I
 - (B) Only II
 - (C) Both I and II
 - (D) Neither I nor II

Oct/Nov 2006

46. Which committee proposed the idea of mergers of banks in order to consolidate weaker banks and protect customer interests?
- (A) Nayak Committee
 - (B) Kothari Committee
 - (C) Narasimham Committee
 - (D) Verma Committee

May/June 2023

47. Consider the following statements regarding the methods of data collection for Job Analysis:
- I. The technical conference method involves collecting information from experts who have extensive knowledge of the job.
 - II. The diary method requires the job holder to maintain a log of their daily activities, which can be highly detailed but demanding.
- Which of the above statement(s) is/are correct?
- (A) Only I
 - (B) Only II

- (C) Both I and II
- (D) Neither I nor II

Oct/Nov 2012

48. Who developed the concept of 'Life Positions' described in terms of 'Okayness'?
- (A) Eric Berne
 - (B) Will Schutz
 - (C) Kurt Lewin
 - (D) Thomas Harris

May/June 2015

49. Consider the following statements regarding the 'Self' in the context of self-development:
- I. The 'patent self' comprises an individual's external identity and physical features.
 - II. The 'inner self' signifies behaviour patterns, values, and other psychological strengths and weaknesses.
 - III. Organisational renewal is possible only by altering the 'patent self' without addressing the 'inner self'.
- Which of the above statement(s) is/are correct?
- (A) I and II
 - (B) II and III
 - (C) I and III
 - (D) I, II, and III

Oct/Nov 2024

50. Which statement best conceptualises the difference between a 'Position' and a 'Role'?
- (A) A position is a basic element of isolated work, whereas a role is a complex system of tasks making relationships irrelevant.
 - (B) A position involves socio-psychological relationships, whereas a role isolates the individual from other workers.
 - (C) A position expects conformity to a hierarchical pattern, whereas a role emphasises a pattern of mutual expectations.
 - (D) A position describes the specific product achieved, whereas a role dictates the wage settlement framework.

May/June 2005

51. Consider the following statements reflecting findings from surveys on business succession:
- I. Slightly more than one third of independent business owners plan to exit their business within the next 5 years.

consuming than interviews because it allows for the simultaneous collection of data from many employees.

9. (A) Luft and Ingham

The Johari Window is a cognitive framework developed by Joseph Luft and Harry Ingham to enhance self-awareness and interpersonal relationships. It categorizes information about an individual into four quadrants based on what is known to the self and what is known to others. This model is widely used in organizational development to improve communication and team dynamics.

10. (B) I and III

Boosting employee morale involves implementing transparent communication channels like an open-door policy for expressing concerns. Recognizing high performers through visible tools, such as scoreboards, also fosters a positive environment. Conversely, sharing positive feedback, such as customer reviews, is essential for motivation. Withholding such information typically has a negative impact on the overall engagement and spirit of the workforce.

11. (A) Cognitivists view learners as active problem-solvers, while mechanists see them as responding to stimuli.

Cognitive theories of learning posit that individuals are active participants who process information and solve problems through mental structures. This perspective emphasizes internal thought processes and understanding. In contrast, mechanistic or behaviorist theories focus on external responses to environmental stimuli and reinforcement. These theories suggest that learning is a passive process of conditioning shaped by rewards and punishments.

12. (A) I, II, and III

Human Resource Development aims to enhance individual capabilities, strengthen the relationship between employees and their supervisors, and foster effective team spirit across organizational units. These goals collectively improve overall organizational performance and adaptability. Rather than suppressing self-renewing capabilities, HRD actively promotes

them to ensure the organization can evolve and respond effectively to changing internal and external environments.

13. (B) Succession planning develops leadership pipelines, while replacement planning identifies specific back-ups.

Succession planning is a proactive, long-term strategy focused on building a continuous pipeline of talent across various levels of the leadership hierarchy. It emphasizes the development of future leaders. Replacement planning is narrower in scope, concentrating on identifying specific individuals who can step into key roles immediately if a vacancy occurs, primarily acting as a short-term contingency measure.

14. (B) I, III, and IV

The interpersonal need for inclusion involves establishing a psychologically comfortable level of interaction and maintaining mutual interest with others. It also includes eliciting behavior from others that aligns with one's personal comfort zone regarding social involvement. Seeking complete control over one's own behavior from external sources is not typically a core aspect of achieving a balanced and healthy sense of inclusion.

15. (D) Job Description records the duties and purpose of the job, while Job Specification defines the knowledge, skills, and abilities required.

A job description provides a detailed record of the specific duties, responsibilities, and the general purpose of a particular role. It outlines what the employee is expected to do. A job specification, however, focuses on the human requirements, defining the specific knowledge, skills, abilities, and other characteristics an individual must possess to perform those duties effectively and safely.

16. (A) I, II, and III

Effective succession planning improves employee commitment, meets career development expectations, and mitigates the high costs associated with external recruitment. By developing internal talent, organizations ensure stability and long-term growth. Unlike replacement planning, which focuses on

- (B) II, III, IV, and V
- (C) I, III, IV, and V
- (D) I, II, IV, and V

Oct/Nov 2021

58. Which statement is incorrect regarding the Systematic Approach to Training (SAT)?
- (A) Identification of training needs considers both present performance gaps and future organisational needs.
 - (B) Evaluation of training occurs strictly before the preparation of the training plan.
 - (C) The actual conduct of training involves deciding on the methodology based on target group profiles and objectives.
 - (D) Preparing an annual training plan involves prioritising the issues thrown up by the training need analysis.

May/June 2024

59. Consider the following stages and concepts related to adult life stages and career transitions:
- I. Adolescence: achieving an ego identity.
 - II. Young Adulthood: developing relationships with individuals or groups.
 - III. Adulthood: guiding the next generation and sponsoring younger colleagues.
 - IV. Maturity: attempting to achieve ego integrity by examining whether life has been meaningful.
 - V. Plateaus: refusing to age or transition functionally.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV
- (B) II, III, IV, and V
- (C) I, III, IV, and V
- (D) I, II, IV, and V

Oct/Nov 2008

60. Which statement is incorrect regarding the concept of Career Anchors?
- (A) Technical/Functional Competence anchors desire to be outstanding in a particular field.
 - (B) Managerial Competence anchors indicate an early inclination to rise in the management hierarchy.
 - (C) Autonomy anchors tie individuals to a secure work environment and a specific

geographical location.

- (D) Creativity anchors are held by individuals who want to create something new and start something successfully.

May/June 2006

61. Consider the following strategies for managing and boosting employee morale:
- I. Improving staff communication and setting clear goals.
 - II. Using non-serious communication like GIFs in a structured environment.
 - III. Launching suggestion boxes to gain feedback.
 - IV. Addressing and controlling false information circulating in the company.
 - V. Ignoring systemic negativity to let it resolve itself organically.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV
- (B) I, II, III, and V
- (C) II, III, IV, and V
- (D) I, III, IV, and V

Oct/Nov 2017

62. Which of the following is NOT an element typically included in a 'Job Specification'?
- (A) Educational Qualification
 - (B) Personality Characteristics
 - (C) Duties Performed
 - (D) Experience

May/June 2008

63. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the codes given below.

Assertion (A): In an organisational setting, adult learning is considered more learner-centric than pedagogy.

Reason (R): Adults get motivation internally and rely on past experiences or life changes to develop a renewed readiness to learn.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is

NODIA

II. 100% of the owners had a formal, written succession plan.

III. Small and medium-sized enterprises were found to be not adequately prepared for business succession.

Which of the above statement(s) is/are correct?

- (A) I and II
- (B) I and III
- (C) II and III
- (D) I, II, and III

Oct/Nov 2019

52. What is the core conceptual premise of a 'Career Anchor'?

- (A) It is the highest hierarchical position an employee can achieve within a single organisation before retirement.
- (B) It is a temporary assignment given to an employee to test their managerial competencies.
- (C) It is a mandated training protocol required for transition from an apprentice to a colleague role.
- (D) It is a personal sense of what work means to an individual, evolving into a self-concept that guides career choices.

May/June 2011

53. Consider the following statements regarding Three Dimensional Movements in a career:

- I. Vertical movement along the hierarchy of the organisation.
- II. Circumferential movement along the different divisions and functions.
- III. Radial movement towards the centre of the organisation.
- IV. Transitory movement entirely outside the organisation's structure.

Which of the above statement(s) is/are correct?

- (A) I, II, and III
- (B) I, II, and IV
- (C) II, III, and IV
- (D) I, III, and IV

Oct/Nov 2020

54. Which of the following statements correctly represents the goals of Human Resource Development?

- (A) HRD aims exclusively at operational skill training without focusing on behavioural

skills.

(B) HRD prevents the collaboration among different units to maintain strict departmental boundaries.

(C) HRD seeks to develop the dyadic relationship between each employee and their supervisor.

(D) HRD diminishes self-renewing capabilities to centralise decision-making at the top management level.

May/June 2022

55. Consider the following key elements of Talent Management:

- I. Attracting the right talent
- II. Onboarding
- III. Creating a Talent Pool
- IV. Eliminating Career Paths

Which of the above statement(s) is/are correct?

- (A) I, II, and III
- (B) I, III, and IV
- (C) II, III, and IV
- (D) I, II, III, and IV

Oct/Nov 2023

56. Which statement correctly reflects the concept of Locus of Control?

- (A) Individuals with an internal locus of control are generally geared up to look for resources and anticipate events.
- (B) Individuals with an external locus of control believe their efforts and ideas directly contribute to their success.
- (C) Individuals with an internal locus of control wait for external forces to push them and exhibit a general dependency.
- (D) Locus of control is entirely determined by the hierarchical position an individual holds within the organisation.

May/June 2013

57. Consider the following components included under 'Job Description':

- I. Job Identification
- II. Job Summary
- III. Duties Performed
- IV. Supervision Given and Received
- V. Personality Characteristics

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV

- (D) Improving team effectiveness by clarifying the role expectations and obligations of every member.

Oct/Nov 2018

70. Which behaviour is the best indicator of “Self-Regulation” as a component of Emotional Intelligence?
- (A) Consistently striving to meet a standard of excellence despite facing obstacles.
- (B) Understanding the emotional make-up of others and treating them accordingly.
- (C) Suspending judgment and keeping disruptive emotions and impulses in check.
- (D) Building widespread networks and finding common ground to build rapport.

May/June 2007

71. Referring to the case of Global Bank’s training program described in Question 30, when the HR head attempts to evaluate if the training yielded tangible business results and return on training investment, which level of evaluation are they targeting?
- (A) Reaction Level
- (B) Functioning / Results Level
- (C) Learning Level
- (D) Behaviour Level

Oct/Nov 2025

72. Arrange the following steps of the Systematic Approach to Training in the correct sequential order:
- I. Preparation of a Training Plan
- II. Evaluation of the Training Programmes
- III. Training Need Analysis (TNA)
- IV. Selection and Development of Trainers
- V. Conduct of the Training Programmes
- (A) III, I, IV, V, II
- (B) I, III, V, IV, II
- (C) III, V, I, II, IV
- (D) II, I, III, IV, V

May/June 2012

73. Read the following case study and answer the questions that follow:
- Mr. Sharma, a senior branch manager, is known for his strict, evaluative, and highly judgmental behaviour. He frequently points out the flaws of his junior officers, making them feel inadequate. Recently, when a junior officer, Amit, proposed a new process for customer*

queuing, Mr. Sharma instantly rejected it without logical analysis, reacting instinctively out of a desire to maintain his authoritative dominance. Amit, feeling demotivated, responded defensively, leading to a complete breakdown in communication between them.

In terms of Transactional Analysis, Mr. Sharma’s evaluative and judgmental behaviour primarily stems from which ego state?

- (A) Critical Parent
- (B) Nurturing Parent
- (C) Adult
- (D) Natural Child

Oct/Nov 2014

74. Match the work-related terms in List I with their corresponding descriptions in List II:

List I: (Terms)

- P. Task
- Q. Job
- R. Position
- S. Role

List II: (Descriptions)

- Emphasises the pattern of mutual expectations.
- A complex system of tasks requiring an individual to achieve an overall product, making relationship irrelevant.
- A basic element requiring a person to achieve a specific product, isolating the individual from others.
- Puts an individual in a hierarchical pattern, expecting those below to report or surrender.

- (A) P-3, Q-2, R-4, S-1
- (B) P-2, Q-3, R-1, S-4
- (C) P-3, Q-1, R-4, S-2
- (D) P-4, Q-2, R-3, S-1

May/June 2020

75. Referring to the case of Mr. Sharma and Amit described in Question 73, to improve his personal efficacy and change his rigid attitude, Mr. Sharma must first undergo a process of introspection. Which concept explains the process of understanding how much of his behaviour is known to himself and how much is known to others?
- (A) Johari Window
- (B) Career Anchors
- (C) Spiral Concept

false.

- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2013

64. Which of the following is NOT one of the career patterns listed by the Driver model?
- (A) Linear Career
 - (B) Steady State Career
 - (C) Spiral Career
 - (D) Circumferential Career

May/June 2019

65. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the codes given below.
- Assertion (A): Having an established career path planning subsystem guarantees a smooth upward movement for every employee in the organisation.
- Reason (R): Organisational structures are pyramidal in shape, meaning lesser and lesser positions are available at higher levels.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2007

66. Which of the following functions was NOT frequently included in the remit of corporate talent management practitioners during its formalisation phase?
- (A) Succession planning
 - (B) High potential management
 - (C) Compensation
 - (D) Assessment and development

May/June 2025

67. Read the following case study and answer the questions that follow:
- A leading public sector bank recently merged with two regional banks. Post-merger, the top management realised that while financial*

profitability figures were promising, the human impact was significant. Employees from the regional banks felt alienated, lacking a sense of belonging, and were uncertain about their roles in the new Core Banking Solution (CBS) environment. The HR department decided to intervene by shifting from a traditional administrative role to a strategic partner. They initiated a comprehensive Job Analysis exercise for all restructured branches to clarify expectations.

By initiating a comprehensive Job Analysis to clarify expectations, the HR department is primarily preparing to formulate which two components essential for the new structure?

- (A) Job Description and Job Specification
- (B) Job Evaluation and Wage Settlement
- (C) Succession Planning and Talent Acquisition
- (D) Pedagogy and Andragogy

Oct/Nov 2016

68. What is the best description of a "Plateau career" pattern?
- (A) An individual takes on a new job, moves up in rank rapidly, and continuously changes fields.
 - (B) An individual enters a profession and develops a continuous, uninterrupted upward movement throughout their life.
 - (C) An individual shifts from one job to another without acquiring any specific excellence or higher rank.
 - (D) An individual reaches a level higher than where they started but then continues to remain on that same level.

May/June 2014

69. Referring to the case of the bank merger described in Question 67, if the HR department decides to use the 'Role Analysis Technique' (RAT) during this integration, what will be its primary focus?
- (A) Documenting the physical environmental conditions and safety protocols of the regional branches.
 - (B) Establishing the specific financial compensation packages for the outgoing regional bank managers.
 - (C) Monitoring the daily attendance patterns and unscheduled absentee rates of the operational staff.

ANSWERS

1. (B) True Consensus
True consensus involves reaching an agreement through open dialogue where all viewpoints are considered with mutual respect. Unlike simple majority rule or forced compromise, it ensures that every member feels heard and agrees with the final decision. This approach strengthens group cohesion and commitment to the chosen course of action within a team environment.
2. (C) Self-Regulation - Being entirely driven by external rewards like money and status.
Self-regulation involves managing one's internal impulses and disruptive emotions effectively. It focuses on maintaining integrity and adaptability rather than being driven by external rewards like money or status. Conversely, being motivated by internal factors and personal passion for work is a separate component of emotional intelligence, often referred to as intrinsic motivation or achievement drive.
3. (A) A more formal way to broaden one's knowledge to prepare the individual for a different but identified job.
Education is characterized as a formal process intended to expand an individual's theoretical and conceptual knowledge. It aims to prepare people for future roles or different career paths by providing a broad understanding of various subjects. Unlike training, which focuses on immediate job-specific tasks, education emphasizes long-term intellectual development and the acquisition of foundational principles.
4. (B) Only II
True consensus is achieved when group members debate the advantages and disadvantages of different options with mutual respect. It moves beyond a simple majority vote to find a solution that everyone can support. In contrast, consensus does not imply forced compromise or negative emotions; rather, it represents a collaborative effort to reach a unified understanding and agreement.
5. (D) Strategically planning human capital needs to improve long-term business value.
Talent management in a progressive organization involves the strategic planning and management of human capital to enhance long-term business outcomes. It encompasses attracting, developing, and retaining high-potential employees who contribute to the organization's competitive advantage. This approach goes beyond basic administrative tasks, focusing instead on aligning individual capabilities with the future strategic goals and needs of the business.
6. (B) Only II
An internal locus of control is associated with proactive behavior and the belief that personal efforts influence outcomes. Providing feedback that highlights how an individual's specific actions led to success can help shift an external orientation toward internality. This reorientation encourages employees to take greater responsibility for their performance and professional development within the organizational framework.
7. (C) Eight
The career development framework identifies eight distinct career anchors that guide individuals in their professional choices. These include technical/functional competence, managerial competence, autonomy/independence, security/stability, entrepreneurial creativity, service/dedication to a cause, pure challenge, and lifestyle. Understanding these anchors helps organizations align employee motivations with suitable roles, enhancing overall job satisfaction and long-term commitment to the firm.
8. (C) I and III
The interview method for job analysis requires understanding a position within its broader organizational context. Observation involves work sampling but is often influenced by the fact that employees know they are being watched. Meanwhile, the questionnaire method is typically more cost-effective and less time-

(D) Locus of Control

Oct/Nov 2015

- 76.** Match the Career Roles in List I with their corresponding stages in List II:

List I: (Roles)

- P. Apprentice
- Q. Colleague
- R. Mentor
- S. Sponsor

List II: (Stages)

1. Broadens perspective to think long-term, choosing the right people to support the process of influencing.
2. Begins making an independent contribution though still in a subordinate role with less dependence.
3. Does routine work under supervision, accommodating to a certain degree of dependency.
4. Develops ideas, manages others, and assumes responsibility for subordinates' work.

- (A) P-3, Q-2, R-4, S-1
- (B) P-2, Q-3, R-1, S-4
- (C) P-3, Q-1, R-4, S-2
- (D) P-4, Q-2, R-3, S-1

May/June 2009

- 77.** Referring to the case of Priya described in Question 36, if she decides to remain in her current grade but takes on new, complex credit portfolios without moving up the hierarchical ladder, her career pattern is best described as:

- (A) Linear Career
- (B) Steady State Career
- (C) Transitory Career
- (D) Spiral Career

Oct/Nov 2011

- 78.** Match the Ego States in List I with their characteristics in List II:

List I: (Ego States)

- P. Nurturing Parent
- Q. Critical Parent
- R. Adult
- S. Little Professor

List II: (Characteristics)

1. Evaluative and judgmental, making others feel they are not OK.
2. The thinking part of the child, creative, intuitive, and experimental.

3. Understanding and caring about other people.
4. Logical, reasonable, analytical, and unemotional in problem solving.

- (A) P-3, Q-1, R-4, S-2
- (B) P-1, Q-4, R-2, S-3
- (C) P-3, Q-2, R-1, S-4
- (D) P-4, Q-1, R-3, S-2

May/June 2010

- 79.** Read the following case study and answer the questions that follow:

The IT department of a bank formed a new project team to implement a cybersecurity framework. During the initial weeks, team members engaged in severe conflicts over task allocation and technical approaches. The team leader, Rahul, intervened by using his extensive academic achievements and technical experience in cybersecurity to guide the team. He facilitated open discussions, respecting everyone's views, until the team agreed on a unified approach without forcing compromises on the minority.

The stage of group formation where the team members engaged in severe conflicts over task allocation is known as:

- (A) Forming
- (B) Norming
- (C) Performing
- (D) Storming

Oct/Nov 2005

- 80.** Identify the correct pair regarding career concepts:

- (A) Transitory Career - Moving upward through the hierarchy within the same organization and profession.
- (B) Linear Career - Shifting between unrelated jobs without any focus on building specialized knowledge.
- (C) Spiral Career - Reaching a specific skill level and then plateauing without further professional change.
- (D) Steady State Career - Specializing in a field without seeking higher levels of management hierarchy.

immediate back-up candidates, succession planning takes a broader view by preparing a diverse pool of individuals for future leadership roles throughout the entire organization.

17. (B) It involves logical, analytical, and unemotional behaviour based on objective facts and probabilities.

The Adult ego state in Transactional Analysis represents the rational and objective part of the personality. It processes information based on facts and calculates probabilities rather than relying on emotions or preconceived notions. This state is essential for logical problem-solving and effective decision-making in professional settings, as it allows individuals to interact with reality without being influenced by past biases.

18. (A) I, II, III, and IV

Adult learning is most effective when individuals are motivated, receive timely feedback, and have opportunities for practice. Reinforcement also plays a critical role in ensuring that newly acquired behaviors are repeated and integrated. Crucially, adult learning principles emphasize that training should be practical and transferable to the job, rather than being restricted to purely theoretical concepts without real-world application.

19. (A) The Knowledge Function suggests that attitudes are always formed using empirical and objective facts.

The knowledge function of attitudes provides a frame of reference for organizing and interpreting information. However, these attitudes are not always based on empirical or objective facts; they are often simplified mental constructs used to make sense of a complex world. This helps individuals maintain a stable and consistent perception of their environment, even if the underlying information is incomplete.

20. (A) I and III

Providing new information can effectively alter an individual's beliefs and attitudes. Similarly, co-opting dissatisfied employees by involving them in improvement processes fosters a sense of ownership and can lead to positive attitude shifts. However, high levels of fear arousal are generally counterproductive for changing

attitudes, as they often trigger defensive reactions that make the intended message less believable.

21. (D) Allowing employees to remain isolated from organisational surveys fosters higher long-term morale.

Isolating employees from organizational surveys generally hinders morale because it prevents them from providing feedback and feeling heard. Active engagement through surveys and recognition programs is essential for a positive workplace culture. Boosting morale often involves clear communication, celebrating successes, and, when necessary, addressing negative influences within the group to maintain a productive and supportive environment for all staff.

22. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Job evaluation is considered an independent activity because it focuses specifically on determining the relative worth of a job for compensation purposes. While it relies on data from job analysis, the increasing complexity of modern roles and their direct link to wage structures necessitate treating evaluation as a distinct exercise. This separation ensures that pay scales are determined fairly and systematically.

23. (B) Pedagogy

Pedagogy refers specifically to the methods and principles of teaching children, which often involve a more directive and dependent approach. In contrast, adult learning, or andragogy, is characterized by principles such as self-direction, experiential learning, and mentorship. Adults prefer to be involved in the planning of their instruction and value learning that is immediately applicable to their personal lives.

24. (D) Assertion (A) is false, but Reason (R) is true.

Crossed transactions are generally undesirable in organizational communication because they lead to misunderstandings and block further interaction. A crossed transaction occurs when a message from one ego state receives

an unexpected or inappropriate response from another state. While the definition of a crossed transaction provided in the reason is accurate, the assertion that they are highly desirable for communication is incorrect.

25. (A) Transparent

The Johari Window framework consists of four specific quadrants: the Arena (open self), the Blind spot, the Facade (hidden self), and the Unknown self. These quadrants help individuals understand their self-awareness and their relationships with others. "Transparent" is not one of the standardized labels used in this model to describe the different levels of information known to oneself and others.

26. (D) Assertion (A) is false, but Reason (R) is true.

Succession planning and replacement planning are distinct concepts with different scopes. Succession planning focuses on long-term leadership development and building a talent pipeline across the organization. In contrast, replacement planning is a short-term strategy centered on identifying immediate back-ups for specific key positions. Therefore, the assertion that they are identical concepts is false, while the provided reason is correct.

27. (A) To align human resource efforts with organisational goals to ensure performance-oriented outcomes.

Strategic Human Resource Management is implemented to ensure that people management practices are directly aligned with the long-term goals and objectives of the organization. This alignment transforms HR from a purely administrative function into a strategic partner that drives organizational performance. It involves planning for future talent needs and developing human capital to achieve a sustainable competitive advantage in the market.

28. (C) An open organisational culture that promotes trust, mutual respect, and psychological safety.

Fostering a sense of belonging in a newly merged organization requires an open culture characterized by trust, mutual respect, and psychological safety. Such an environment

allows employees to express themselves and feel valued during periods of significant change. Coercive power or restricting career paths would further alienate staff, whereas a supportive culture helps integrate different groups and improves overall engagement.

29. (B) By receiving feedback from others and making more self-disclosures.

Expanding the Arena or open-self quadrant in the Johari Window requires two primary actions: seeking feedback from others and engaging in self-disclosure. Feedback helps an individual understand their "blind spots," while self-disclosure reduces the "hidden" area by sharing information with others. Together, these processes increase transparency, build trust, and improve the quality of communication and relationships within a group.

30. (C) Experiential learning which focuses on using past experience and hands-on training methods.

Using case studies and group discussions reflects the principle of experiential learning, which emphasizes the value of an adult's past experiences. Adults learn most effectively when they can connect new information to their existing knowledge and apply it to practical scenarios. This hands-on approach encourages active participation and critical thinking, making the training more relevant and impactful than traditional passive lectures.

31. (D) To group jobs with similar skill requirements to help in the logical sequencing of assignments.

Identifying job families involves categorizing positions that require similar skills, knowledge, or educational backgrounds. This grouping facilitates more effective career path planning by allowing for the logical sequencing of job assignments and developmental opportunities. By understanding these clusters, organizations can better manage internal mobility and ensure that employees are progressively gaining the competencies needed for higher-level roles within their field.

32. (D) Training Need Analysis (TNA)

According to the Systematic Approach to Training, a Training Need Analysis should always be conducted before preparing a

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specific training plan. This process identifies performance gaps and determines which skills are required to meet organizational goals. By performing TNA first, the bank could have ensured that the selected participants actually needed the advanced data analytics training to perform their roles.

33. (B) III, V, I, IV, II

The standard stages of group development proceed in a specific order: forming, storming, norming, conforming, and finally performing. During forming, members orient themselves. Storming involves conflict as roles are established. Norming creates stability and shared expectations. Conforming stabilizes these norms, and performing is the stage where the group works effectively toward its goals. This sequence describes the evolution of team dynamics.

34. (C) A Crossed Transaction

A crossed transaction occurs when a message from a specific ego state in one person is met with an unexpected response from an inappropriate ego state in another. This mismatch blocks effective communication and often leads to conflict or demotivation. In the described scenario, the senior manager's stimulus and the junior officer's defensive response represent a classic example of this breakdown.

35. (B) P-2, Q-1, R-4, S-3

Learning is the broad acquisition of knowledge or skills through experience or study. Training is focused on teaching immediately applicable skills for a specific job. Development involves long-term personal growth and preparing for future organizational roles. Education is a formal process designed to broaden knowledge, often preparing individuals for a different, identified job by providing a strong theoretical foundation.

36. (D) Technical/Functional Competence

Priya's hesitation to take a managerial role despite her high performance indicates that her primary career anchor is technical or functional competence. Individuals with this anchor derive satisfaction from mastering their specific area of expertise and often prefer specialized work over general management responsibilities. They

value the opportunity to apply and grow their technical skills within their chosen professional domain.

37. (A) P-2, Q-3, R-4, S-1

Legitimate power comes from official positions and job descriptions. Referent power is based on trust and modeling behavior. Expert power is derived from professional competence and specialized skills. Reflected power is gained through proximity to a powerful individual, often acting as their proxy. Understanding these different power bases is crucial for analyzing influence and leadership dynamics within an organization.

38. (C) Mentor

In her current role, Priya is developing ideas, managing complex functions, and taking responsibility for her subordinates' work. These activities characterize the mentor stage of career development. At this stage, a professional has moved beyond being an individual contributor and has begun to guide and influence the work of others, helping to develop the next generation of talent within the organization.

39. (B) Behaviour Level - Observation of transfer of learning to work performance.

The behavior level of training evaluation focuses on observing whether the learning has been transferred to the trainee's actual work performance. It measures changes in how the individual performs their duties after the training. In contrast, the reaction level gauges the trainee's satisfaction, while the learning level assesses the knowledge acquired through tests, and the results level measures overall business impact.

40. (A) Knowledge / Expert Power

Rahul utilizes his extensive academic achievements and technical experience in cybersecurity to influence his team. This represents expert or knowledge-based power, which is derived from possessing specialized skills and information that others value. By leveraging his expertise to guide the team toward a unified approach, Rahul establishes credibility and authority based on his professional competence rather than formal hierarchical status.

- 41.** (A) Autonomy - Restricting oneself to a specific location for the purpose of job security and safety.

The autonomy career anchor describes a desire for independence and freedom from organizational constraints, not a restriction to a specific location for security. A preference for a secure environment and a specific geographical location is characteristic of the security/stability career anchor. Those with an autonomy anchor value the ability to define their own work and schedule according to their personal standards.

- 42.** (B) Determining a job's relative importance and responsibilities for fair wage settlements.

Job evaluation is a systematic process used to determine the relative worth or value of different positions within an organization. Its primary purpose is to ensure that pay structures are fair and equitable, reflecting the responsibilities and requirements of each role. This process compares jobs based on factors such as skill, effort, and working conditions to establish internal salary hierarchies.

- 43.** (A) Only I

A Human Resource Information System stores critical data about employee experiences, skills, and qualifications, making it a valuable tool for supporting development efforts. Rather than inhibiting these efforts, an updated and comprehensive HRIS enables better tracking of talent and more informed decision-making regarding training and promotions. Therefore, only the first statement accurately describes the positive role of HRIS in organizational development.

- 44.** (C) A persistent tendency to feel and behave in a particular way towards some object.

An attitude is defined as a persistent mental and neural state of readiness that exerts a directive influence on an individual's response to all objects and situations with which it is related. It involves a consistent tendency to react positively or negatively toward a specific person, object, or event. Attitudes are relatively stable but can change over time through new information or experiences.

- 45.** (C) Both I and II

The Three Cs of Talent include competence, commitment, and contribution. Competence refers to the mental ability and knowledge required to perform a task, often associated with the "head." Contribution involves taking action and putting those abilities into practice, which is metaphorically linked to "hands and feet." Both statements correctly identify how these components represent different aspects of an individual's professional talent.

- 46.** (C) Narasimham Committee

The Narasimham Committee was responsible for proposing the merger of banks as a strategy to consolidate weaker institutions and protect customer interests. These recommendations aimed to create stronger, more competitive banking entities that could withstand economic challenges and provide better services. The committee's reports played a significant role in the structural reform and modernization of the Indian banking sector.

- (C) Both I and II

The technical conference method utilizes the insights of experts to gather detailed information about a job. The diary method requires employees to keep a log of their daily activities, providing a highly detailed but labor-intensive account of their work. Both methods are valid ways to collect data for job analysis, offering different perspectives on the requirements and tasks of various roles.

- 48.** (D) Thomas Harris

Thomas Harris is credited with developing and popularizing the concept of 'Life Positions,' which describes an individual's fundamental stance toward themselves and others in terms of "OKness." These positions, such as "I'm OK, You're OK," form the basis of his work in transactional analysis. This framework helps individuals understand their psychological health and the nature of their interpersonal relationships.

- 49.** (A) I and II

The 'patent self' refers to an individual's external identity and visible characteristics, while the 'inner self' encompasses deeper psychological traits, values, and behavioral patterns. For

meaningful organizational renewal to occur, changes must address both the internal and external aspects of individuals. Simply altering the patent self without addressing the inner self is insufficient for sustainable development and personal growth.

50. (C) A position expects conformity to a hierarchical pattern, whereas a role emphasises a pattern of mutual expectations.

A position is defined by its place within a formal organizational hierarchy and its associated duties. In contrast, a role is a more dynamic concept that focuses on the behavioral expectations and relationships between an individual and others in the organization. While positions emphasize formal authority and tasks, roles highlight the socio-psychological interactions and mutual expectations that define professional performance.

51. (B) I and III

Surveys on business succession indicate that over one-third of independent business owners plan to exit within five years, yet many small and medium-sized enterprises remain inadequately prepared. Very few owners actually have a formal, written succession plan in place. This lack of preparation highlights a significant risk to the long-term continuity and stability of these organizations as leadership transitions approach.

52. (D) It is a personal sense of what work means to an individual, evolving into a self-concept that guides career choices.

A career anchor is an internal self-concept that individuals develop over time as they gain work experience. It represents a combination of perceived talents, values, and motives that a person will not give up when making career choices. This anchor serves as a guiding force, helping individuals find roles that align with their personal identity and professional priorities throughout their lives.

53. (A) I, II, and III

Career movements within an organization can be categorized into three dimensions: vertical, circumferential, and radial. Vertical movement involves moving up or down the hierarchy. Circumferential movement refers to moving

across different functions or divisions. Radial movement describes moving toward the inner circle or center of influence in the organization. These movements collectively define the trajectory of an individual's professional growth.

54. (C) HRD seeks to develop the dyadic relationship between each employee and their supervisor.

A key goal of Human Resource Development is to strengthen the dyadic relationship between employees and their supervisors, as this connection is fundamental to individual performance and growth. HRD also focuses on both technical and behavioral skills while encouraging collaboration across units. Furthermore, it actively promotes the self-renewing capabilities of the organization to ensure it remains adaptable and effective over time.

55. (A) I, II, and III

Effective talent management involves attracting high-quality candidates, ensuring a smooth onboarding process, and creating a robust talent pool for future needs. These elements help build a strong workforce that can achieve organizational goals. Eliminating career paths would be counterproductive, as clearly defined advancement opportunities are essential for retaining talent and motivating employees to grow within the organization over the long term.

56. (A) Individuals with an internal locus of control are generally geared up to look for resources and anticipate events.

Locus of control refers to an individual's belief about what drives the events in their life. Those with an internal locus of control believe their own efforts and decisions determine their success, leading them to be proactive and resourceful. In contrast, those with an external locus of control attribute outcomes to outside forces like luck or fate, often resulting in dependency.

57. (A) I, II, III, and IV

A job description typically includes job identification, a summary of the role, a list of duties performed, and details regarding

May/June 2014

6. A bank institutes a policy to provide comprehensive health insurance, ensures transparent career advancement paths, fosters a culture of mutual respect, and allows for flexible shifts to balance family life. These initiatives collectively indicate a strategic focus on improving the organisation's:
- (A) Job Enlargement
 - (B) Operant Conditioning
 - (C) Quality of Work Life (QWL)
 - (D) Rational Economic View

Oct/Nov 2022

7. How did Salvatore Maddi define personality?
- (A) A simple pattern of personality traits that relies mainly on biological pressures and situational impulses.
 - (B) A stable set of characteristics determining patterns of psychological behavior over time.
 - (C) The specific result of classical conditioning where all behaviors are shaped by external financial rewards.
 - (D) A psychological framework based on the unconscious desires for biological pleasures and social recognition.

May/June 2019

8. Which of the following statements correctly differentiates 'role space' from 'role set'?
- (A) Role space is the dynamic interrelationship between the self and the various roles an individual occupies, with the self at the centre.
 - (B) Role space refers to the pattern of interrelationships between one focal role and the different persons with whom the occupant interacts.
 - (C) Role set consists only of the various biological roles an individual inherits at birth.
 - (D) Role set is entirely independent of the expectations of significant members of the social system.

Oct/Nov 2014

9. Match the developmental stages of E.H. Erikson in List I with their corresponding psychological conflicts in List II:
- List I: (Developmental Stages)
- P. Stage 1

Q. Stage 2

R. Stage 4

S. Stage 5

List II: (Psychological Conflicts)

- 1. Autonomy vs. Shame and Doubt
- 2. Identity vs. Role Confusion
- 3. Trust vs. Mistrust
- 4. Industry vs. Inferiority
- (A) P-3, Q-1, R-4, S-2
- (B) P-1, Q-4, R-2, S-3
- (C) P-3, Q-4, R-1, S-2
- (D) P-2, Q-1, R-3, S-4

May/June 2012

10. Given below are two statements, one labelled as Assertion (A) and the other as Reason (R). Select the correct answer from the options given below:
- Assertion (A): A bank manager might experience high levels of role stress due to conflicts between work commitments and family demands.
- Reason (R): When an individual occupies more than one role, they often experience inter-role distance due to conflicting demands on their time and energy.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2025

11. Arrange the following developmental stages of personality in the chronological order of their occurrence, as described by E.H. Erikson:
- 1. Initiative vs. Guilt
 - 2. Generativity vs. Stagnation
 - 3. Identity vs. Role Confusion
 - 4. Intimacy vs. Isolation
- Which of the following represents the correct sequence?
- (A) 1, 3, 4, 2
 - (B) 3, 1, 2, 4
 - (C) 1, 4, 3, 2
 - (D) 4, 1, 3, 2

structure itself. The provided reason correctly explains this structural reality, whereas the assertion makes an unrealistic guarantee.

66. (C) Compensation

During the formalization phase of talent management, practitioners focused primarily on succession planning, identifying high-potential employees, and assessment and development. These activities are central to building a leadership pipeline. Compensation, while a critical part of overall human resource management, was often managed as a separate administrative and financial function rather than being integrated directly into the core talent management remit.

67. (A) Job Description and Job Specification

Conducting a comprehensive job analysis allows an organization to create two essential documents: job descriptions and job specifications. The job description details the duties and responsibilities of each role in the new structure, while the job specification outlines the skills and qualities required to perform those duties. Together, these provide the clarity needed to help employees understand their new expectations.

68. (D) An individual reaches a level higher than where they started but then continues to remain on that same level.

A plateau career pattern occurs when an individual advances to a certain hierarchical or skill level and then remains at that same level for an extended period. While the person has achieved some degree of upward movement from their starting point, they no longer experience significant professional advancement or promotion. This can happen due to limited opportunities or a personal choice to stay.

69. (D) Improving team effectiveness by clarifying the role expectations and obligations of every member.

The Role Analysis Technique is used primarily to improve team effectiveness by defining and clarifying the expectations each member has of others. It focuses on understanding the obligations and responsibilities within a group context to reduce role ambiguity. In the bank merger scenario, RAT would help integrate

staff by ensuring everyone understands how their specific role fits into the larger team.

70. (C) Suspending judgment and keeping disruptive emotions and impulses in check.

Self-regulation is the ability to control one's own emotions and impulses, allowing for more thoughtful and less reactive behavior. It involves suspending judgment and maintaining composure, especially in stressful situations. This component of emotional intelligence is essential for making sound decisions and maintaining professional relationships, as it prevents individuals from acting on immediate, potentially disruptive feelings without considering the consequences.

71. (B) Functioning / Results Level

When the HR head evaluates tangible business results and the return on training investment, they are operating at the results or functioning level. This level of evaluation measures the actual impact of the training program on the organization's bottom line and strategic goals. It goes beyond assessing how much the trainees liked the session or what specific skills they learned during it.

72. (A) III, I, IV, V, II

The Systematic Approach to Training follows a logical sequence starting with a Training Need Analysis to identify gaps. This is followed by preparing a comprehensive Training Plan and selecting or developing trainers. The fourth step is the actual conduct of the training programs. Finally, the process concludes with an evaluation of the programs to measure their effectiveness and impact on the organization.

73. (A) Critical Parent

Mr. Sharma's strict, evaluative, and judgmental behavior is characteristic of the Critical Parent ego state. This state focuses on setting standards, criticizing performance, and enforcing rules, often making others feel inadequate or "not OK." By rejecting Amit's proposal instinctively and with a desire for dominance, Mr. Sharma is operating from this authoritative and non-analytical state rather than a rational one.

74. (A) P-3, Q-2, R-4, S-1

A task is a basic work element focused on a specific product. A job is a complex system of tasks where individual relationships are less relevant than the output. A position places an individual within a hierarchical structure. A role emphasizes the socio-psychological pattern of mutual expectations among team members. These terms help define different aspects of how work is organized and experienced.

75. (A) Johari Window

The Johari Window is the most appropriate concept for Mr. Sharma to use for introspection, as it helps individuals understand what behavior is known to themselves and what is known to others. By analyzing his interactions through this model, he can identify his “blind spots” and work on improving his personal efficacy and interpersonal communication by increasing his self-awareness.

76. (A) P-3, Q-2, R-4, S-1

An apprentice performs routine work under supervision with high dependency. A colleague begins contributing independently with less reliance on others. A mentor manages others and takes responsibility for their work while developing new ideas. A sponsor broadens their perspective to long-term goals and supports the influencing process. These roles represent different stages of maturity and responsibility within a professional career path.

77. (B) Steady State Career

If Priya chooses to remain in her current grade while deepening her expertise in complex portfolios, her career pattern is described as steady state. This pattern involves committing to a specific field and maintaining a high level of performance without seeking further upward movement in the organizational hierarchy. It reflects a preference for professional stability and functional mastery over traditional vertical advancement.

78. (A) P-3, Q-1, R-4, S-2

The Nurturing Parent ego state is understanding and caring toward others. The Critical Parent is evaluative and judgmental. The Adult ego state is logical and analytical in problem-solving. The Little Professor represents the thinking part

of the child, showing creativity and intuition. Understanding these states allows for a better analysis of interpersonal transactions and communication styles in various social settings.

79. (D) Storming

The storming stage of group formation is characterized by conflict and competition as individual personalities and ideas emerge. During this phase, members often disagree about task allocation, leadership roles, and methods for achieving goals. While this stage can be difficult, it is a necessary part of the development process that leads to the establishment of norms and more effective team performance later on.

80. (D) Steady State Career - Specializing in a field without seeking higher levels of management hierarchy.

A steady state career is correctly defined as specializing in a particular field and maintaining that level of expertise without actively pursuing higher management positions. In contrast, linear careers involve rapid upward movement, and transitory careers involve frequent shifts between unrelated jobs. Spiral careers involve periodic changes into related fields that build upon previous knowledge, rather than reaching a permanent skill plateau.

CHAPTER 12

Human Implications of Organisations

Oct/Nov 2018

1. Which of the following statements most appropriately describes the concept of 'Synergy' in the context of employee behaviour at work?
 - (A) It is the process of physically isolating individuals to accurately measure their raw, independent output.
 - (B) It is the highest activity of life where cooperation and collaboration exploit mental and psychological differences to improve group performance beyond individual contributions.
 - (C) It is a subjective feeling that significant expectations associated with a role are being eroded by newly created positions.
 - (D) It refers to the probabilistic likelihood that a particular performance will result in an expected financial reward.

May/June 2007

2. Consider the following statements regarding Job Enrichment:
 - I. Job enrichment involves redesigning jobs so that they are more challenging and have less repetitive work.
 - II. It generally means an increase with the help of upgrading and development.
 - III. It represents the horizontal expansion of a job involving the addition of tasks at the same level.
 - IV. Job enrichment is generally effected either by promotion to a higher post or by delegation of authority.

Which combination of the above statements is correct?

- (A) Only I, II, and III
- (B) Only II, III, and IV
- (C) Only I, II, and IV
- (D) Only I, III, and IV

Oct/Nov 2011

3. According to psychologist Kurt Lewin, how is human behaviour fundamentally explained?

- (A) Behaviour is a function of the person and the environment around him.
- (B) Behaviour is solely the result of the economic pressures of the moment.
- (C) Behaviour is purely an innate pattern of traits determined by genetic influences.
- (D) Behaviour is a chronological progression through eight developmental stages.

May/June 2023

4. Consider the following statements regarding Workers' Participation in Management (WPIM):
 - I. It refers to associating representatives of employees at every stage of decision-making.
 - II. Article 43A of the Constitution of India deals with Workers' participation in the management.
 - III. WPIM focuses on concentrating power solely in the hands of top management.
 - IV. It is based on the Human Relations approach to Management.
 - V. It operates on the assumption that people derive satisfaction from doing an effective job and having self-control.

Which combination of the above statements is correct?

- (A) Only I, II, IV, and V
- (B) Only I, III, IV, and V
- (C) Only II, III, IV, and V
- (D) I, II, III, IV, and V

Oct/Nov 2005

5. Which of the following is NOT among the basic assumptions about human behaviour at work?
 - (A) There are fundamental differences between individuals in abilities and traits.
 - (B) Organisations function as complex social systems with informal groups.
 - (C) There is a mutual interest and shared goals among organisational members.
 - (D) Behaviour of an individual is random and uncaused.

supervision given and received. These components define the formal requirements and responsibilities of the position. In contrast, personality characteristics are usually categorized under job specification, as they describe the human qualities required of the person who will perform the job.

- 58.** (B) Evaluation of training occurs strictly before the preparation of the training plan.

Within the Systematic Approach to Training, evaluation is the final step that occurs after the training programs have been conducted. Its purpose is to measure the effectiveness of the training and its impact on performance. Identifying training needs and preparing the training plan must occur first to ensure the program is designed to address specific gaps and organizational objectives.

- 59.** (A) I, II, III, and IV

Human development involves distinct stages, from achieving ego identity in adolescence to seeking ego integrity in maturity. In adulthood, individuals often focus on guiding the next generation and sponsoring younger colleagues. While plateaus are common in careers, they do not represent a refusal to age; rather, they are periods where upward movement slows, requiring individuals to find new forms of satisfaction.

- 60.** (C) Autonomy anchors tie individuals to a secure work environment and a specific geographical location.

The statement regarding autonomy anchors is incorrect because autonomy actually represents a desire for freedom from organizational constraints, not an attachment to a specific location or security. People with an autonomy anchor prefer working on their own terms. It is the security/stability anchor that drives a preference for job safety, predictable work environments, and remaining in a specific geographical area throughout a career.

- 61.** (A) I, II, III, and IV

Boosting morale requires clear communication, setting goals, and seeking feedback through suggestions. Even non-serious communication like GIFs can help build rapport in some environments. Addressing false information

is also vital for maintaining trust. However, ignoring systemic negativity is ineffective; leaders must actively address such issues rather than waiting for them to resolve themselves, as negativity can quickly spread and harm productivity.

- 62.** (C) Duties Performed

A job specification outlines the personal attributes required for a role, such as educational qualifications, experience, and personality characteristics. It focuses on the qualities the job holder must possess. In contrast, "duties performed" is a component of a job description, which details the actual tasks and responsibilities that the individual is expected to carry out in that specific position.

- 63.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Adult learning is indeed more learner-centric than pedagogy because it recognizes that adults are self-directed and internally motivated. They rely heavily on their past experiences to provide a context for new learning. This readiness to learn is often triggered by significant life changes or professional needs, making the educational process more relevant and effective for mature learners compared to traditional teaching methods.

- 64.** (D) Circumferential Career

The Driver model identifies four primary career patterns: linear, steady state, spiral, and transitory. These patterns describe different trajectories of professional movement and development. "Circumferential" is a term used to describe movement across different functions or divisions within an organization, but it is not classified as one of the four specific career patterns defined in the Driver model framework.

- 65.** (D) Assertion (A) is false, but Reason (R) is true.

While career path planning is a valuable subsystem, it cannot guarantee smooth upward movement for every employee. This is because organizational structures are pyramidal, with fewer opportunities available at higher levels of leadership. Therefore, even with perfect planning, vertical progression is limited by the

May/June 2005

12. Consider the following statements regarding role-related conflicts:
- I. Role expectation conflict occurs when the role occupant experiences conflicting demands from bosses, peers, subordinates, or customers.
 - II. Role overload is a specific stressor reflecting the perception that the demands of one's work role exceeds their personal resources.
 - III. Role overload occurs exclusively when there is proper delegation and minimal expected output.
- Which combination of the above statements is correct?
- (A) Only I and II
 - (B) Only I and III
 - (C) Only II and III
 - (D) I, II, and III

Oct/Nov 2009

13. According to Carl Rogers' Self-Concept Theory, what is the best vantage point for understanding an individual's behaviour?
- (A) The statistical analysis of genetic traits.
 - (B) The internal frame of reference of the individual himself.
 - (C) The objective measurement of piece-rate productivity.
 - (D) The unconscious desires mapped through psychoanalysis.

May/June 2016

14. Consider the following statements regarding Role Erosion:
- I. It is a decrease in one's level of responsibility or a feeling of not being fully utilised.
 - II. It is a subjective feeling that some important expectations from a role are being shared or taken by other roles.
 - III. It can occur when organisations create new positions that take away certain functions of existing roles.
 - IV. It is caused by the role occupant lacking the necessary technical skills or educational background.
- Which combination of the above statements is correct?
- (A) Only I, II, and III
 - (B) Only I, III, and IV
 - (C) Only II, III, and IV
 - (D) I, II, III, and IV

Oct/Nov 2020

15. Consider the following statements concerning the biological factors of personality:
- Statement I: Electrical stimulation of the brain (ESB) may be used to physically manipulate personality, reduce stress, and stimulate creative thinking.
- Statement II: The right hemisphere of the brain controls the right side of the body and governs logical, mathematical, and analytical behaviour.
- Which of the statements is/are correct?
- (A) Only Statement I
 - (B) Only Statement II
 - (C) Both Statement I and Statement II
 - (D) Neither Statement I nor Statement II

May/June 2021

16. Consider the following statements concerning inadequacies at work:
- Statement I: A role occupant experiences resource inadequacy when materials, finance, facilities, or information required to perform effectively are not available.
- Statement II: A role occupant experiences personal inadequacy when they feel they lack the knowledge, skills, or experience to perform a new role effectively.
- Which of the statements is/are correct?
- (A) Only Statement I
 - (B) Only Statement II
 - (C) Both Statement I and Statement II
 - (D) Neither Statement I nor Statement II

Oct/Nov 2010

17. Consider the following statements regarding Holland's Typology of Personality:
- I. The Realistic type prefers activities that require skill, strength, and coordination.
 - II. The Social type prefers rule-regulated, orderly, and unambiguous activities.
 - III. The Enterprising type is self-confident, ambitious, energetic, and domineering.
 - IV. The Artistic type is imaginative, disorderly, idealistic, and emotional.
- Which combination of the above statements is correct?
- (A) Only I, II, and III
 - (B) Only I, III, and IV
 - (C) Only II, III, and IV
 - (D) I, II, III, and IV

NODIA

one's job, advancing an important idea, and maximising one's potential?

- (A) Self-Esteem Needs
- (B) Physiological Needs
- (C) Self-Actualisation Needs
- (D) Safety Needs

Oct/Nov 2006

67. A manager implements a new program to publicly acknowledge and praise employees who consistently perform well, ensuring they feel like distinct, valuable members of the workgroup. According to motivation theories, which specific need is this non-monetary incentive attempting to satisfy?
- (A) Self-esteem need
 - (B) Physiological need
 - (C) Need for power
 - (D) Need for existence

May/June 2025

68. Based on Herzberg's Two-Factor Theory, which of the following is classified as a 'Motivational Factor'?
- (A) Company policy and administration
 - (B) Interpersonal relations with subordinates
 - (C) Working conditions
 - (D) Possibility of Growth

Oct/Nov 2007

69. In Porter and Lawler's Performance Satisfaction Model, actual rewards determine the level of satisfaction. What are the two kinds of rewards specified in this model?
- (A) Short-term and long-term rewards
 - (B) Financial and physiological rewards
 - (C) Expected and probabilistic rewards
 - (D) Intrinsic and extrinsic rewards

May/June 2013

70. An employee repeatedly fails to achieve a highly desired promotion and feels his capabilities are not growing. Frustrated, he stops striving for the promotion and instead heavily focuses on making friends and seeking peer approval at work. Which mechanism of the ERG Theory explains this behaviour?
- (A) Instrumentality
 - (B) Operant conditioning
 - (C) Frustration regression
 - (D) Valence assignment

Oct/Nov 2021

71. Which of the following statements most appropriately captures the distinction between the concept of a 'job' and a 'role' in an organisational context?
- (A) A job encompasses the discretionary part of work, whereas a role is strictly prescriptive and governed by organizational rules.
 - (B) A job assumes a relationship with a supervisor, while a role involves relationships with all who have expectations.
 - (C) A job is defined primarily by the emotional state of the individual, whereas a role is defined by tangible financial rewards and status.
 - (D) A job is a relational and power-related concept, whereas a role is an overarching environmental factor that exists outside the office.

May/June 2009

72. Which of the following statements is INCORRECT regarding the Achievement Motivation Theory?
- (A) Individuals with a high need for power derive satisfaction from being social and forming strong interpersonal ties.
 - (B) It was developed by David C. McClelland and his associates.
 - (C) Employees with high achievement motivation derive satisfaction from achieving goals rather than just acquiring wealth.
 - (D) Organisations that foster the power motive tend to attract individuals to military, civil services, and political organisations.

Oct/Nov 2008

73. Match the forms of role stressors in List I with their specific meanings in List II:
- List I: (Role Stressors)
- P. Role Ambiguity
 - Q. Role Overload
 - R. Role Erosion
 - S. Personal Inadequacy
- List II: (Meanings)
1. Feeling of not being fully utilised or experiencing a decrease in responsibility
 2. Feeling of lacking the required knowledge, skills, or experience to perform
 3. Lack of clarity about the various

diverse employees to pass through the system. This traditional approach is termed:

- (A) Homogeneous reproduction
- (B) Cultural auditing
- (C) Diversity enlargement
- (D) Role expectation conflict

Oct/Nov 2006

25. A recently hired employee in a bank feels financially secure and enjoys the safe working conditions provided. Now, the employee actively seeks a compatible work group, peer acceptance, and friendly supervision. According to Maslow's Need Hierarchy, which level of needs is the employee currently trying to satisfy?

- (A) Social Needs
- (B) Self-Actualisation Needs
- (C) Safety/Security Needs
- (D) Self-Esteem Needs

May/June 2025

26. Consider the following statements about process and contemporary motivation theories:

- I. Vroom's expectancy model is based on the belief that motivation is determined by the nature of the reward people expect to get as a result of their job performance.
- II. Expectancy is the probabilistic perception of the likelihood that a particular outcome will result from a particular behaviour.
- III. Valence is the objective, non-negotiable financial value of the reward, regardless of employee perception.
- IV. Reinforcement theory was proposed by B.F. Skinner and is based on the law of effect.
- V. Operant conditioning implies that behaviour that leads to a punishing consequence tends to be repeated.

Which combination of the above statements is correct?

- (A) Only I, II, and IV
- (B) Only I, III, and V
- (C) Only II, III, and IV
- (D) I, II, III, and IV

Oct/Nov 2007

27. What defines 'Hygiene or Maintenance Factors' in Herzberg's Two-Factor Theory?

- (A) Context factors whose absence causes serious dissatisfaction, but whose presence

does not significantly motivate employees.

- (B) Motivational factors directly related to the content of the job itself that create a highly engaging and productive situation.
- (C) Intrinsic rewards and achievements such as a strong sense of personal accomplishment, responsibility, and self-actualisation.
- (D) Factors representing an individual's intrinsic desire to grow professionally and achieve milestones in their career and personal life.

May/June 2013

28. Which of the following is NOT considered a Hygiene or Maintenance factor according to Herzberg's Two-Factor Theory?

- (A) Technical supervision
- (B) Salary
- (C) Recognition
- (D) Job security

Oct/Nov 2021

29. Which of the following correctly pairs an ERG Theory need category with its corresponding description according to Clayton Alderfer?

- (A) Related Needs — Relate to an intrinsic desire to grow and learn new skills.
- (B) Existence Needs — Relate to basic survival, similar to physiological and safety needs.
- (C) Growth Needs — Relate to the natural desire to develop social relationships and belongingness.
- (D) Existence Needs — Relate to identifying and getting recognition for oneself.

May/June 2009

30. Which of the following statements about Employee Participation is INCORRECT?

- (A) It reduces resistance to change when key employees are involved before initiating major changes.
- (B) It satisfies employees' power needs to some extent and makes them feel important.
- (C) It strictly prevents workers from sharing their views, forcing them to concentrate solely on manual work.
- (D) It fosters a feeling of belonging and encourages individuals to accept responsibility.

- (C) Biological needs relating only to physiological survival, while goals are the complex needs relating only to psychological growth.
- (D) Factors that are strictly conscious and rational, while goals are the purely subconscious and impulsive responses to stimuli.

May/June 2022

42. What is the definition of 'employee behavior' in the context of an organisation?
- (A) The set of biological factors that determine an employee's physical traits.
- (B) The way in which employees respond to specific circumstances or situations in the workplace.
- (C) The economic motives that solely drive an employee to achieve maximum financial gain.
- (D) The inherent intelligence and educational background an individual brings to their job.

Oct/Nov 2018

43. A highly qualified employee placed on a routine job reaches peak efficiency quickly, becomes overconfident, and starts exhibiting a drop in performance due to disinterest. To remedy this, the manager shifts the employee to another job at the same level but with different functionality to provide new learning opportunities. This technique is called:
- (A) Job Rotation
- (B) Job Enlargement
- (C) Job Enrichment
- (D) Quality of Work Life mapping

May/June 2007

44. Which of the following is a correct pair of a broad factor and its corresponding specific variables influencing human behaviour?
- (A) Personal Factors — Compensation, Reward System, and Organisation Structure
- (B) Psychological Factors — Age, Sex, Education, and Abilities
- (C) Environmental Factors — Economic outlook, Cultural norms, and Political climate
- (D) Organisational Factors — Personality, Perception, Attitudes, and Values

Oct/Nov 2011

45. Which of the following is NOT a contributing factor to the Quality of Work Life (QWL)?
- (A) Adequate and fair compensation
- (B) Strict isolation of employees to prevent peer interactions
- (C) A safe and healthy environment
- (D) Protection and respect for employee's rights to privacy and equity

May/June 2023

46. Consider the following statements regarding the 'economic man' and 'social man' approaches:
- I. The 'economic man' approach assumes employees are primarily motivated by money and treated as rational human beings.
- II. The Hawthorne studies revealed that economic motives alone fully explain human behaviour and performance at work.
- III. The 'social man' approach acknowledges that social interactions at the workplace make a big difference in an employee's attitude to perform.

Which combination of the above statements is correct?

- (A) Only I and II
- (B) Only I and III
- (C) Only II and III
- (D) I, II, and III

Oct/Nov 2005

47. Consider the following statements concerning the concepts of role and position:
- Statement I: Position is a relational and power-related concept, whereas role is an obligational concept.
- Statement II: The concept of a job is more prescriptive in nature, while a role includes a more discretionary part of work.
- Which of the statements is/are correct?
- (A) Only Statement I
- (B) Only Statement II
- (C) Both Statement I and Statement II
- (D) Neither Statement I nor Statement II

May/June 2014

48. Which of the following is a correct statement regarding personality theories?
- (A) Raymond Cattell utilised factor analysis to identify extraversion and neuroticism as

is guaranteed to succeed even if completely disconnected from HR system.

- IV. Managing diversity must be an inclusive mutual process allowing all members to contribute to their potential.

Which combination of the above statements is correct?

- (A) Only I, II, and IV
- (B) Only I, III, and IV
- (C) Only II, III, and IV
- (D) I, II, III, and IV

Oct/Nov 2012

37. An employee exerts maximum effort on a given task but lacks the required technical abilities and holds a wrong perception of his role. Consequently, his actual performance remains low, and he receives no rewards. Which theory specifically emphasises that effort does not directly equal performance due to individual abilities and role perception?

- (A) Herzberg's Motivation-Hygiene Theory
- (B) Maslow's Need Hierarchy Theory
- (C) McClelland's Achievement Motivation Theory
- (D) Porter and Lawler's Performance Satisfaction Model

May/June 2011

38. Consider the following statements regarding McClelland's Achievement Motivation Theory:

- I. Need for Achievement focuses on deriving satisfaction from succeeding at a task rather than being solely motivated by money.
- II. Need for Power involves deriving satisfaction from the ability to control others and influence resources.
- III. Need for Affiliation is driven by a dominant motive to be social and establish strong interpersonal ties.
- IV. Individuals with high need for affiliation often prefer working with friends over technically competent strangers.
- V. High achievers prefer easy tasks that offer no competitive situation or challenge whatsoever.

Which combination of the above statements is correct?

- (A) Only I, II, III, and IV
- (B) Only II, III, IV, and V

- (C) Only I, III, IV, and V
- (D) I, II, III, IV, and V

Oct/Nov 2016

39. Given below are two statements, one labelled as Assertion (A) and the other as Reason (R). Select the correct answer from the options given below:

Assertion (A): Many negative traits and behaviour patterns in employees develop over time.

Reason (R): According to the operant conditioning approach, if earlier similar negative behaviour was rewarding or unpunished, the individual will have the courage to repeat the act.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2018

40. A highly intelligent employee receives consistent positive feedback from colleagues, which reinforces his confidence. Consequently, he alters his view of his capabilities and seeks out challenging environments over basic job security. According to Carl Rogers, this interaction and subsequent modification of self-regard best illustrates the:

- (A) Self-Concept Theory
- (B) Psycho-analytical Theory
- (C) Social Learning Theory
- (D) Trait Theory

Oct/Nov 2023

41. What is the fundamental difference between motives and goals in determining human behaviour?

- (A) Inner drives that determine the direction of behavior, while goals are external incentives that satisfy those drives.
- (B) Tangible external incentives and rewards that pull individuals, whereas goals are the internal biological drives that push them.

Oct/Nov 2008

- 31.** Arrange the following needs in the hierarchical order proposed by Abraham Maslow, starting from the lowest level to the highest:

1. Self-Actualisation Needs
2. Safety/Security Needs
3. Self-Esteem Needs
4. Social Needs
5. Physiological Needs

Which of the following represents the correct sequence?

- (A) 5, 4, 2, 3, 1
- (B) 5, 2, 4, 3, 1
- (C) 2, 5, 3, 4, 1
- (D) 5, 2, 3, 4, 1

May/June 2006

- 32.** Given below are two statements, one labelled as Assertion (A) and the other as Reason (R). Select the correct answer from the options given below:

Assertion (A): An individual may experience role ambiguity when occupying a newly created post in a department undergoing re-organisation.

Reason (R): Role ambiguity arises when there is a lack of information available or a lack of understanding of the cues required to meet the various expectations people have from the role.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2017

- 33.** In Vroom's Expectancy Model, how is 'Instrumentality' defined?

- (A) It is the person's perception of the likelihood that a particular outcome will result from a particular action.
- (B) It is the degree of association of first-level outcome (performance) to the second-level outcome (reward).
- (C) It is the perceptual value a person assigns to his desired reward.

- (D) It is the cognitive distortion of inputs and outcomes in comparison to peers.

May/June 2008

- 34.** Consider the following statements identifying characteristics of a Type A personality:

- I. Often displays nervous gestures such as clenched fists and banging on a table.
- II. Is impatient with the pace of things, dislikes waiting, and is a multitasker.
- III. Exhibits a highly sociable nature with ample time to relax and enjoy a balanced outlook on life.

Which combination of the above statements correctly describes a Type A personality?

- (A) Only I and II
- (B) Only I and III
- (C) Only II and III
- (D) I, II, and III

Oct/Nov 2013

- 35.** Consider the following statements regarding Adams' Equity Theory:

- I. Inequity is defined as the perception that a person's job inputs/outcomes ratio is not equal to the inputs/outcomes ratio in comparison to another person.
- II. Upon feeling inequity, a person is motivated to reduce it by altering their inputs, altering their outcomes, or leaving the field.
- III. The theory assumes individuals do not compare their rewards with peers, but only with their own past inputs.

Which combination of the above statements is correct?

- (A) Only I and II
- (B) Only I and III
- (C) Only II and III
- (D) I, II, and III

May/June 2015

- 36.** Consider the following statements regarding traditional diversity management strategies:

- I. Diversity sensitivity acknowledges cultural distance and uses training to sensitise employees to stereotyped differences.
- II. Cultural audit tries to determine what is blocking the progress of non-traditional employees by assessing demographic group obstacles.
- III. Cultural assessment as an isolated strategy

the sole dimensions of personality.

- (B) The Type B personality is primarily restless, impatient, and constantly struggles with a chronic sense of time urgency.
- (C) Erikson's model explains personality strictly in terms of left and right brain hemisphere dominance.
- (D) Eysenck's theory focused on temperaments believed to be largely controlled by genetic influences.

Oct/Nov 2022

49. What is the most appropriate reason an employee might experience 'Role Stagnation'?
- (A) Assignment of too many concurrent roles that far exceed an individual's personal time, energy, and available resources.
 - (B) Failure to outgrow a previous role and effectively take charge of a new role following a promotion.
 - (C) A chronic lack of necessary physical equipment, financial support, and technical resources to complete essential assigned tasks.
 - (D) Situations where previous functions have been systematically removed and assigned to a newly created administrative position.

May/June 2019

50. An executive in a bank always walks and eats rapidly, tries to schedule multiple meetings at the same time, often clenches his fist in frustration, and maintains a highly untidy desk. Whenever important papers go missing, he quickly blames his subordinates. Which personality type does this manager exhibit?
- (A) Type B personality
 - (B) Introverted personality
 - (C) Type A personality
 - (D) Self-actualised personality

Oct/Nov 2014

51. What type of role conflict occurs when an individual is unclear about expectations due to a lack of information or an inability to understand available cues, commonly seen in newly created roles?
- (A) Role Ambiguity
 - (B) Role Erosion
 - (C) Personal Inadequacy
 - (D) Role Isolation

May/June 2012

52. Which of the following pairs concerning the Psycho-analytical Theory is INCORRECT?
- (A) Id — Foundation of the unconscious striving for biological pleasures.
 - (B) Ego — Conscious in nature, keeping the id in check through external realities.
 - (C) Super ego — Higher-level restraining force acting as the conscience of the person.
 - (D) Ego — Foundation of unconscious animal instincts of aggression and power.

Oct/Nov 2025

53. On the first day of the month, a branch accountant faces simultaneous demands: allocating duties to cover for absent staff, answering urgent queries from rushing customers, and attending a meeting called by the branch manager. The accountant perceives that these simultaneous demands surpass his capacity to handle them. This situation is an example of:
- (A) Role Ambiguity
 - (B) Role Isolation
 - (C) Role Erosion
 - (D) Role Overload

May/June 2005

54. Given below are two statements, one labelled as Assertion (A) and the other as Reason (R). Select the correct answer from the options given below:
- Assertion (A): The Social Learning Theory believes that personality development is more a result of social variables than biological factors.
- Reason (R): Much of human behaviour is learnt or modified through interaction with the external environment, and good behaviour reinforced by society tends to be repeated.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

May/June 2024

18. Which of the following statements about 'Role Isolation' is INCORRECT?
- (A) It happens when a role occupant feels that certain roles are at a greater distance from him.
 - (B) The main criterion for measuring distance is the frequency and ease with which the role is performed.
 - (C) It occurs when an individual deliberately avoids interacting with family members to focus exclusively on their organisational role.
 - (D) When linkages are strong, role isolation is considered to be low.

Oct/Nov 2019

19. Which of the following correctly pairs a traditional diversity management approach with its core characteristic?
- (A) Diversity enlargement — Increasing the representation of individuals of different ethnic and cultural backgrounds.
 - (B) Cultural audits — Changing an organisation's demographic composition to increase representation.
 - (C) Diversity enlargement — Acknowledging cultural distance and teaching members about differences via training.
 - (D) Diversity sensitivity — Trying to determine what is blocking the progress of non-traditional employees through surveys.

May/June 2010

20. Which of the following descriptions related to Holland's Typology of Personality is INCORRECT?
- (A) The 'Realistic' type prefers physical activities that require strength, coordination, and practical skill sets.
 - (B) The 'Social' type prefers activities that involve helping, informing, and developing other people.
 - (C) The 'Enterprising' type prefers verbal activities offering opportunities to influence others and attain power or status.
 - (D) The 'Conventional' type prefers ambiguous, unsystematic activities that allow for emotional and creative expression.

Oct/Nov 2024

21. An organisation recently implemented a hiring drive to increase diverse representation. However, they only hired three diverse workers in a department of fifty. These new hires soon felt a sense of isolation and overexposure, eventually leading to their resignation. What concept best describes the primary reason for this failure?
- (A) Homogeneous reproduction
 - (B) Frustration regression
 - (C) Role expectation conflict
 - (D) Lack of a critical mass

May/June 2017

22. Match the need hierarchy categories in List I with the corresponding managerial practices in List II:

List I: (Need Hierarchy Categories)

- P. Physiological Needs
- Q. Safety/Security Needs
- R. Social Needs
- S. Self-Esteem Needs

List II: (Managerial Practices)

- 1. Encouraging compatible work groups and friendly supervision
 - 2. Providing salaries and good physical working conditions
 - 3. Implementing pension schemes, group insurance, and safe working conditions
 - 4. Offering challenging work assignments, merit pay increases, and recognition
- (A) P-3, Q-2, R-4, S-1
 - (B) P-1, Q-4, R-2, S-3
 - (C) P-2, Q-3, R-1, S-4
 - (D) P-4, Q-1, R-3, S-2

Oct/Nov 2015

23. Which of the following is NOT classified as a 'Content Theory' of motivation?
- (A) Abraham Maslow's Need Hierarchy Theory
 - (B) Victor H. Vroom's Expectancy Model
 - (C) Frederick Herzberg's Two-Factor Theory
 - (D) Clayton Alderfer's ERG Theory

May/June 2020

24. A recruitment manager tends to select and promote candidates who share his identical educational background, communication style, and demographic profile, making it difficult for

emotional, and psychological differences between people.

- (C) The rational economic view assumes people are primarily motivated by a desire for self-actualisation.
- (D) Behaviour of an individual is random and cannot be caused by biological or social processes.

May/June 2010

- 62.** What is the fundamental implication of the POSH Act, 2013 and Section 354 of the Indian Penal Code for modern organisations?
- (A) They mandate equal remuneration and pay parity for men and women employees in the formal sector.
 - (B) They enforce a mandatory minimum representation of women in corporate boardrooms and senior leadership roles.
 - (C) They obligate employers to report sexual harassment and establish frameworks to protect women at work.
 - (D) They regulate working hours and overtime for women to help them balance dual home and work responsibilities.

Oct/Nov 2024

- 63.** Given below are two statements, one labelled as Assertion (A) and the other as Reason (R). Select the correct answer from the options given below:
- Assertion (A): The POSH Act 2013 was enacted to protect women from sexual harassment at their place of work.
- Reason (R): Under the Criminal Law (Amendment) Act 2013, Section 354 was added to the Indian Penal Code, making sexual harassment a crime and obligating employers to report such offences.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

May/June 2017

- 64.** Consider the following statements regarding early theories of motivation:
- I. F.W. Taylor believed that workers are primarily motivated by the need for money, an assumption called the 'rabble hypothesis'.
 - II. Scientific Management advocates scientifically studying physical work to determine the optimal method of performing a job.
 - III. Elton Mayo conducted the Hawthorne Studies, discovering the importance of social contacts and interpersonal relations.
 - IV. The Human Relations Model expected workers to accept management's authority solely in return for differential piece-rate wages.
 - V. Behavioural scientists criticised Taylor's approach for de-humanising workers by treating them as mere factors of production.
- Which combination of the above statements is correct?
- (A) Only I, II, III, and V
 - (B) Only I, III, IV, and V
 - (C) Only II, III, IV, and V
 - (D) I, II, III, IV, and V

Oct/Nov 2015

- 65.** Consider the following statements regarding Herzberg's Motivational Factors:
- I. Motivational factors are related directly to the job itself, such as achievement and responsibility.
 - II. The presence of motivational factors creates a highly motivating situation, but their absence does not necessarily cause severe dissatisfaction.
 - III. Examples of motivational factors include company policy, salary, and interpersonal relations with peers.
- Which combination of the above statements is correct?
- (A) Only I and II
 - (B) Only I and III
 - (C) Only II and III
 - (D) I, II, and III

May/June 2020

- 66.** According to Maslow's Need Hierarchy, which need correlates to the desire for excelling in

Oct/Nov 2009

55. In a growing bank, the sole general manager historically handled both planning and operations. Recently, the bank created a new general manager post and assigned all planning duties to it. The original general manager, now handling only operations, feels subjective distress over losing these functions. What form of role stress is the original manager experiencing?

(A) Resource Inadequacy
(B) Role Erosion
(C) Role Ambiguity
(D) Inter-Role Distance

May/June 2016

56. According to John Holland's personality-job fit theory, which of the following personality types is most appropriate for a person pursuing a career as a biologist or mathematician?

(A) Investigative
(B) Realistic
(C) Conventional
(D) Enterprising

Oct/Nov 2020

57. What distinguishes 'Personal Inadequacy' from 'Role Ambiguity'?

(A) In role ambiguity, expectations are unclear; in personal inadequacy, the occupant lacks the skills to meet clear expectations.
(B) In role ambiguity, the occupant lacks the training to do the job; in personal inadequacy, the person lacks the required physical resources.
(C) Personal inadequacy involves multiple conflicting expectations from peers, whereas role ambiguity involves a significant decrease in responsibility.
(D) Role ambiguity is typically resolved by financial rewards, whereas personal inadequacy is resolved by simply increasing daily working hours.

May/June 2021

58. Which of the following statements is INCORRECT regarding diversity management at the workplace?

(A) 'Homogeneous reproduction' refers to selection systems allowing only those employees to pass through who fit the characteristics of the dominant coalition.

(B) Having people with heterogeneous and complementary skills is generally detrimental to an organisation's long-term growth.

(C) Traditional HR systems have historically promoted similarity rather than diversity.

(D) Managing workgroup diversity effectively can enhance creativity and problem-solving processes.

Oct/Nov 2010

59. A branch field officer in a bank is temporarily asked to perform the duties of a branch accountant while the latter is on leave. The field officer has rarely interacted with the accounting system, finding the tasks unfamiliar and distant from his usual duties. Consequently, he struggles to perform the accountant's role effectively. This scenario highlights:

(A) Role Isolation
(B) Personal Inadequacy
(C) Inter-Role Distance
(D) Resource Inadequacy

May/June 2024

60. Match the personality types under Holland's Typology in List I with their congruent occupations in List II:

List I: (Personality Types)

P. Realistic
Q. Conventional
R. Enterprising
S. Artistic

List II: (Occupations)

1. Bank teller, file clerk
2. Lawyer, small business manager
3. Mechanic, farmer
4. Painter, musician

(A) P-1, Q-2, R-3, S-4
(B) P-4, Q-3, R-1, S-2
(C) P-3, Q-1, R-2, S-4
(D) P-2, Q-4, R-1, S-3

Oct/Nov 2019

61. Which of the following is a correct statement regarding the conceptual differences in human behaviour at work?

(A) The concept of a whole person implies that an employee's personal life has absolutely no bearing on their work life.
(B) Synergy values and exploits the mental,

expectations associated with the role

4. Perception that the demands of one's work role exceed personal resources
 - (A) P-3, Q-4, R-1, S-2
 - (B) P-4, Q-3, R-2, S-1
 - (C) P-1, Q-2, R-3, S-4
 - (D) P-2, Q-1, R-4, S-3

May/June 2006

74. Consider the following statements concerning Valence in Vroom's Expectancy Model:
Statement I: Valence represents the actual monetary value of a reward provided by an organisation.
Statement II: Valence is the perceptual value a person assigns to his desired reward in his mind, highlighting that different employees desire different outcomes.
Which of the statements is/are correct?
 - (A) Only Statement I
 - (B) Only Statement II
 - (C) Both Statement I and Statement II
 - (D) Neither Statement I nor Statement II

Oct/Nov 2017

75. Consider the following statements regarding the functions of the brain's hemispheres:
 - I. The left hemisphere controls the right side of the body.
 - II. The right hemisphere is associated with spatial, musical, and holistic behaviours.
 - III. The left hemisphere handles linear, detailed, and logical/mathematical functions.
 - IV. The right hemisphere primarily governs speech/verbal and sequential ordering tasks.
 Which combination of the above statements is correct?
 - (A) Only I, II, and III
 - (B) Only I, III, and IV
 - (C) Only II, III, and IV
 - (D) I, II, III, and IV

May/June 2008

76. Match the Motivation Theories in List I with their respective authors in List II:
List I: (Motivation Theories)
P. ERG Theory
Q. Two-Factor Theory
R. Achievement Motivation Theory
S. Equity Theory

List II: (Authors)

1. Frederick Herzberg
 2. Clayton Alderfer
 3. James Stacy Adams
 4. David C. McClelland
- (A) P-1, Q-2, R-3, S-4
 - (B) P-3, Q-4, R-1, S-2
 - (C) P-2, Q-1, R-4, S-3
 - (D) P-4, Q-3, R-2, S-1

Oct/Nov 2013

77. Consider the following statements concerning techniques for motivation to work:
 - I. Job enlargement involves the horizontal expansion of a job, contradicting principles of extreme specialisation.
 - II. Job enrichment makes jobs more exciting and creative, giving the employee more decision-making and planning powers.
 - III. Job rotation removes employee boredom by shifting an employee from one job to another at a same level with different functionality.
 - IV. Job enrichment is generally effected either by promotion to a higher post or by delegation of authority.
 - V. Job enlargement involves the vertical expansion of a job by upgrading tasks to require higher technical qualifications.
 Which combination of the above statements is correct?
 - (A) Only I, II, III, and V
 - (B) Only I, II, III, and IV
 - (C) Only II, III, IV, and V
 - (D) I, II, III, IV, and V

May/June 2015

78. Which of the following concepts forms the core foundation of Reinforcement Theory?
 - (A) It relies on an individual's conscious expectation that their performance will lead to a particular desired reward.
 - (B) It is built upon the frustration-regression principle, allowing individuals to move down a hierarchy of needs.
 - (C) It is based on the law of effect, where behaviors are selected by their consequences and internal states are overlooked.
 - (D) It depends on the comparative equity of an employee's inputs and outcomes relative to a peer.

40. (A) Self-Concept Theory

Carl Rogers' Self-Concept Theory focuses on how individuals perceive themselves based on internal feelings and external feedback. In the scenario, the employee's self-regard is modified by positive reinforcement from colleagues, leading him to seek more challenging roles. This process of updating one's self-view through interaction with the social environment is central to Rogers' theory, emphasizing the growth of the self.

41. (A) Inner drives that determine the direction of behavior, while goals are external incentives that satisfy those drives.

Motives are internal psychological or biological needs that prompt an individual to act, serving as the push factor in behavior. Goals, on the other hand, are external incentives or outcomes toward which behavior is directed, serving as the pull factor. Together, motives and goals interact to determine the direction, intensity, and persistence of an individual's efforts within a given situation or organization.

42. (B) The way in which employees respond to specific circumstances or situations in the workplace.

Employee behavior refers to the observable actions and reactions of individuals within an organizational setting. It is influenced by a combination of personal traits, psychological factors, and the work environment. Understanding these responses helps management predict how staff will react to changes, stress, or rewards. This focus on situational responses is fundamental to managing human resources and improving overall organizational effectiveness.

43. (A) Job Rotation

Job rotation is a technique used to reduce boredom and increase learning by moving an employee from one job to another at the same organizational level. It provides variety without necessarily increasing the complexity of the tasks. In the scenario, shifting the overconfident and disinterested employee to a different functional area allows them to acquire new skills and maintains their engagement through task variety.

44. (C) Environmental Factors — Economic outlook, Cultural norms, and Political climate

Environmental factors encompass external influences like economic conditions, cultural norms, and the political climate that shape how individuals behave. Option A is incorrect because compensation and structure are organizational factors. Option B is incorrect because age and sex are personal factors. Option D is incorrect because personality and values are psychological factors. Correct classification of these variables is essential for analyzing human behavior.

45. (B) Strict isolation of employees to prevent peer interactions.

Quality of Work Life aims to enhance employee satisfaction and well-being. Factors such as fair compensation, safe environments, and respect for privacy are essential components of QWL. However, strict isolation is detrimental as it prevents social interaction and belongingness, which are critical for a positive work experience. QWL strategies instead promote social integration and supportive peer relationships to create a healthier workplace.

46. (B) Only I and III

The economic man approach views employees as rational beings motivated purely by financial gain. The Hawthorne studies challenged this by showing that social relationships and workplace interactions significantly impact performance, leading to the social man concept. Statement II is incorrect because the Hawthorne studies actually discovered that economic motives alone do not fully explain behavior, highlighting the importance of psychological and social factors.

47. (C) Both Statement I and Statement II

Position is defined by its place in the organizational hierarchy and power structure, whereas a role involves the specific obligations and expectations associated with it. Additionally, a job is often prescriptive, with clearly defined tasks, while a role allows for more discretionary behavior and personal interpretation. Together, these statements clarify that roles are more dynamic and relationship-based compared to structured positions and jobs.

ANSWERS

1. (B) It is the highest activity of life where cooperation and collaboration exploit mental and psychological differences to improve group performance beyond individual contributions. Synergy represents a collaborative state where the collective efforts of a group produce a result greater than the sum of individual inputs. In organizational behavior, it emphasizes utilizing diverse mental and psychological strengths. This process fosters innovation and problem-solving, ensuring that teams achieve higher productivity and effectiveness through mutual cooperation and shared goals among all organizational members.
2. (C) Only I, II, and IV
Job enrichment focuses on making roles more challenging and meaningful by reducing repetitive tasks and increasing responsibility. This vertical expansion typically involves upgrading skills and delegating authority to provide employees with greater autonomy. Unlike job enlargement, which adds tasks at the same level, enrichment aims to improve the depth of the job, fostering professional growth and development at work.
3. (A) Behaviour is a function of the person and the environment around him.
Kurt Lewin's Field Theory posits that human behavior is a result of the continuous interaction between an individual and their surroundings. The formula $B = f(P, E)$ signifies that internal psychological factors and external environmental influences together determine how a person acts. This perspective highlights the importance of considering both personality traits and situational contexts in behavior at work.
4. (A) Only I, II, IV, and V
Workers' Participation in Management involves engaging employees in decision-making processes at various levels, rooted in the Human Relations approach. Article 43A of the Indian Constitution supports this principle to promote industrial democracy. It assumes that individuals derive job satisfaction from exercising self-control and contributing effectively. However, it specifically opposes concentrating all power solely in the hands of top management.
5. (D) Behaviour of an individual is random and uncaused.
Organizational behavior is based on the premise that human conduct is caused and follows specific patterns rather than being random. Fundamental assumptions include individual differences in traits, the existence of mutual interests between employees and organizations, and the view of workplaces as social systems. Recognizing these underlying causes allows managers to predict, influence, and improve performance within a structured environment.
6. (C) Quality of Work Life (QWL)
Quality of Work Life encompasses organizational efforts to enhance employee well-being through comprehensive benefits, fair advancement, and work-life balance. Initiatives like health insurance and flexible shifts demonstrate a strategic focus on the human dimension of work. By fostering a respectful culture and addressing personal needs, organizations aim to improve overall job satisfaction, employee engagement, and long-term organizational productivity.
7. (B) A stable set of characteristics determining patterns of psychological behavior over time.
Salvatore Maddi defines personality as a consistent set of traits and tendencies that shape an individual's psychological behavior. These characteristics remain relatively stable across different situations and over long periods. This definition emphasizes that personality is not merely a reaction to immediate impulses but a structured framework that provides continuity and predictability to a person's thoughts and actions.

24. (A) Homogeneous reproduction

Homogeneous reproduction describes a selection bias where managers hire and promote individuals who mirror their own characteristics, backgrounds, and styles. This tendency creates a self-perpetuating cycle that favors the dominant group and excludes diverse candidates. By prioritizing similarity over variety, organizations maintain a uniform culture but often stifle innovation and prevent the benefits of a truly diverse and inclusive workforce.

25. (A) Social Needs

According to Maslow's hierarchy, once physiological and safety needs are adequately satisfied, an individual seeks to fulfill social needs. These include the desire for belongingness, peer acceptance, and meaningful interpersonal relationships. The employee in the scenario is already secure and safe, so their focus on friendly supervision and compatible work groups indicates they are now operating at the social level.

26. (A) Only I, II, and IV

Vroom's expectancy model posits that motivation depends on expected rewards, where expectancy is the perceived link between effort and performance. Reinforcement theory suggests behavior is shaped by consequences. Statement III is incorrect because valence is the subjective, not objective, value an employee assigns to a reward. Statement V is incorrect because punishing consequences typically discourage, not repeat, the specific target behavior.

27. (A) Context factors whose absence causes serious dissatisfaction, but whose presence does not significantly motivate employees.

Herzberg's Hygiene factors, or maintenance factors, relate to the environment or context of work, such as salary, company policy, and working conditions. Their presence is necessary to prevent dissatisfaction but does not create long-term motivation or satisfaction. To motivate employees, organizations must look beyond these environmental factors and focus on motivators like achievement, recognition, and the intrinsic nature of the work.

28. (C) Recognition

In Herzberg's Two-Factor Theory, recognition is classified as a motivator, not a hygiene factor. Motivators are intrinsic to the job and lead to high satisfaction and performance. In contrast, salary, technical supervision, and job security are hygiene factors. These are extrinsic elements related to the work environment that must be maintained to avoid employee dissatisfaction but do not inherently drive motivation.

29. (C) Existence Needs — Relate to basic survival, similar to physiological and safety needs

According to Clayton Alderfer, ERG Theory groups human needs into Existence, Relatedness, and Growth. Existence needs refer to basic survival requirements like food, shelter, and safety, similar to physiological and safety needs in Maslow's theory. Hence, option B is correct, while other options mismatch the definitions of relatedness and growth needs.

30. (C) It strictly prevents workers from sharing their views, forcing them to concentrate solely on manual work.

Employee participation is an inclusive management practice that encourages workers to share their ideas and take part in decision-making. This involvement fosters a sense of belonging, satisfies power needs, and reduces resistance to organizational change. Statement C is incorrect because it describes a restrictive, non-participative environment. True participation leverages the insights of employees, moving beyond manual labor to value intellectual contributions.

(B) 5, 2, 4, 3, 1

Abraham Maslow's hierarchy of needs begins with physiological needs at the base, followed by safety and security needs. Once these are met, social needs for belongingness emerge. Next are self-esteem needs, focusing on status and recognition. The highest level is self-actualization, where an individual strives to realize their full potential. This sequential progression suggests that lower-level needs must be satisfied first.

as finance or facilities, to perform their job effectively. Personal inadequacy, however, is an internal feeling where the individual believes they lack the required knowledge, skills, or experience for their role. Both concepts represent significant barriers to performance, identifying whether the deficiency lies within the environment or the individual.

17. (B) Only I, III, and IV

John Holland's typology identifies various personality types and their preferred work environments. Realistic types value physical coordination and skill. Enterprising types are ambitious and seek to influence others for status. Artistic types prefer imaginative and unsystematic activities. However, statement II is incorrect because the Conventional type, not the Social type, prefers rule-regulated, orderly, and highly unambiguous tasks in the workplace.

18. (C) It occurs when an individual deliberately avoids interacting with family members to focus exclusively on their organisational role.

Role isolation within an organization refers to a perceived distance between the focal role and other roles in the system. It is measured by the frequency and ease of interaction between roles. Statement C is incorrect because role isolation specifically describes professional distancing within the organizational framework, whereas avoiding family members to focus on work relates more to inter-role distance.

19. (A) Diversity enlargement — Increasing the representation of individuals of different ethnic and cultural backgrounds.

Diversity enlargement is a traditional strategy focused on increasing the number of employees from diverse backgrounds within an organization. It aims to change demographic composition to ensure better representation. In contrast, diversity sensitivity focuses on training to handle differences, while cultural audits involve surveying employees to identify systemic barriers. Enlargement specifically addresses the quantity and variety of hires to improve diversity.

20. (D) The 'Conventional' type prefers ambiguous, unsystematic activities that allow for emotional and creative expression.

In Holland's Typology, the Conventional type actually prefers structured, orderly, and rule-regulated activities, such as data processing or accounting. They thrive in environments that are predictable rather than ambiguous. The description in option D accurately describes the Artistic type, who values creative and emotional expression. Therefore, attributing unsystematic and ambiguous preferences to the Conventional type is a factual error.

21. (D) Lack of a critical mass

A lack of critical mass occurs when an organization hires only a few diverse individuals into a large, homogeneous group. Without a sufficient number of peers, these employees often experience heightened visibility, isolation, and psychological pressure. This overexposure can lead to turnover, as the small number of diverse workers fails to form a supportive subculture or influence the environment.

22. (C) P-2, Q-3, R-1, S-4

Maslow's hierarchy links specific needs to managerial practices. Physiological needs are met through adequate salaries and physical conditions. Safety needs involve job security and safe environments. Social needs are satisfied through friendly supervision and group interaction. Finally, self-esteem needs are addressed by offering recognition and challenging assignments. Aligning these practices ensures that employees progress through the hierarchy toward higher levels.

23. (B) Victor H. Vroom's Expectancy Model

Content theories of motivation focus on the internal factors or what motivates individuals, such as the needs identified by Maslow, Herzberg, and Alderfer. Victor Vroom's Expectancy Model is classified as a process theory. Process theories examine the how of motivation, focusing on the cognitive processes and perceptions that lead to behavior, such as the relationship between effort and expected rewards.

8. (A) Role space is the dynamic interrelationship between the self and the various roles an individual occupies, with the self at the centre. Role space refers to the complex arrangement of various roles an individual performs, centered around their self-concept. It highlights the internal struggle or harmony between personal identity and different professional or social positions. In contrast, a role set focuses on the network of external relationships and expectations that others have regarding a specific focal role within an organization.
9. (A) P-3, Q-1, R-4, S-2
Erik Erikson's psychosocial theory outlines distinct developmental conflicts at various life stages. Stage 1 involves establishing Trust versus Mistrust during infancy. Stage 2 focuses on Autonomy versus Shame and Doubt in early childhood. Stage 4 occurs during school age, emphasizing Industry versus Inferiority. Finally, Stage 5 deals with Identity versus Role Confusion during adolescence, where individuals seek their social self.
10. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Inter-role distance occurs when an individual faces conflicting demands from occupying multiple roles simultaneously, such as professional and family responsibilities. A bank manager experiencing stress due to work-life conflict exemplifies this concept. The conflicting pressures on time and energy between these different roles create psychological tension. Therefore, the presence of multiple roles directly causes the stress described in the scenario.
11. (A) 1, 3, 4, 2
Erik Erikson's developmental stages follow a specific chronological order throughout the human lifespan. Initiative vs. Guilt occurs during early childhood. This is followed by Identity vs. Role Confusion during the adolescent years. In early adulthood, individuals face Intimacy vs. Isolation as they seek close relationships. Finally, Generativity vs. Stagnation represents the middle adulthood phase, focusing on contributing to future generations.
12. (A) Only I and II
Role expectation conflict arises when a role occupant receives contradictory demands from different stakeholders like bosses and customers. Role overload is a stressor occurring when the perceived demands of a role exceed the individual's available personal resources or time. Contrary to statement III, role overload is typically associated with excessive work pressure rather than proper delegation or minimal output expectations.
13. (B) The internal frame of reference of the individual himself.
Carl Rogers' Self-Concept Theory suggests that behavior is best understood through the individual's own subjective experience. The internal frame of reference accounts for how a person perceives themselves and their environment. This phenomenological approach emphasizes that personal reality, rather than objective measurements or unconscious drives, is the primary driver of actions and the key to understanding human psychological development.
14. (A) Only I, II, and III
Role erosion occurs when an individual feels their responsibilities have decreased or that important functions are being shared with or taken by others. This often happens when organizations create new positions that overlap with existing roles. Unlike personal inadequacy, which involves a lack of technical skills, role erosion is a subjective feeling of underutilization and the loss of significant job expectations.
15. (A) Only Statement I
Electrical stimulation of the brain is a technique used to influence personality by stimulating specific areas to reduce stress or enhance creativity. Statement II is incorrect because the left hemisphere generally controls the right side of the body and governs logical functions. Understanding these biological components helps explain how brain physiology and manipulation can impact an individual's psychological state and behavior.
16. (C) Both Statement I and Statement II
Resource inadequacy occurs when an employee lacks the necessary external support, such

- 32.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Role ambiguity occurs when an individual lacks clear information or understanding regarding the expectations of their position. This is common during organizational restructuring or when new roles are created. Because the cues and responsibilities are not yet well-defined, the occupant cannot effectively meet the expectations of others. The lack of clarity described in the reason is the direct cause of stress.

- 33.** (B) It is the degree of association of first-level outcome (performance) to the second-level outcome (reward).

In Vroom's Expectancy Model, instrumentality represents the employee's belief that achieving a certain level of performance will actually lead to a specific reward. It serves as a bridge between performance and reward. If an employee perceives that performance is not linked to rewards, their motivation will decrease, regardless of how much they value the reward or believe they can perform.

- 34.** (A) Only I and II

Type A personalities are characterized by a chronic sense of time urgency, impatience, and competitive drive. They often exhibit nervous gestures like clenching fists and struggle with the pace of activities. Statement III is incorrect because highly sociable behavior and a relaxed outlook are hallmarks of a Type B personality. Type A individuals typically prioritize productivity and speed over balanced relaxation.

- 35.** (A) Only I and II

Adams' Equity Theory focuses on social comparison, where individuals perceive inequity if their input-to-outcome ratio differs from that of a peer. When inequity is felt, people are motivated to restore balance by changing their efforts, seeking different outcomes, or leaving the organization. Statement III is incorrect because the theory's core premise is that individuals specifically compare rewards with those of others.

- 36.** (A) Only I, II, and IV

Diversity sensitivity uses training to address stereotypes, while cultural audits assess obstacles for non-traditional employees. Effective diversity management should be an inclusive process that maximizes the potential of all members. However, statement III is incorrect because cultural assessments cannot succeed in isolation; they must be integrated with broader HR systems and organizational strategies to produce meaningful and sustainable workplace changes.

- 37.** (D) Porter and Lawler's Performance Satisfaction Model

Porter and Lawler's model expands on expectancy theory by arguing that effort does not automatically lead to performance. It highlights that individual abilities, traits, and role perceptions are critical moderators in this relationship. Even with high effort, if an employee lacks skills or misinterprets their role, performance will be low. This model emphasizes a comprehensive view of performance and eventual reward satisfaction.

- 38.** (A) Only I, II, III, and IV

McClelland's theory identifies three dominant needs: achievement, power, and affiliation. High achievers seek success in tasks, while those with power needs want to influence others. Affiliation-driven individuals value interpersonal ties and may prioritize friendship over technical competence. Statement V is incorrect because high achievers typically prefer moderately challenging tasks that provide a sense of personal accomplishment rather than very easy tasks.

- 39.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

The operant conditioning approach suggests that behavior is shaped by its consequences. If negative behavior in the workplace is rewarded or goes unpunished, an individual is more likely to repeat it, leading to the development of persistent negative traits over time. The reason provided explains the mechanism by which the behavior patterns mentioned in the assertion are formed and sustained at work.

56. (A) Investigative

According to John Holland's personality-job fit theory, the Investigative type is characterized by a preference for activities involving thinking, organizing, and understanding. These individuals are typically analytical, curious, and independent, making them well-suited for scientific or mathematical careers. This type contrasts with the Realistic type, who prefers physical tasks, or the Conventional type, who prefers structured and orderly administrative or clerical work.

57. (A) In role ambiguity, expectations are unclear; in personal inadequacy, the occupant lacks the skills to meet clear expectations.

The core difference lies in the source of the stress. Role ambiguity stems from a lack of clarity regarding what the role entails, often due to poor communication. Personal inadequacy occurs when the job expectations are well-defined, but the individual feels they lack the necessary technical knowledge, skills, or experience to fulfill them. Thus, one is a problem of information, while the other competence.

58. (B) Having people with heterogeneous and complementary skills is generally detrimental to an organisation's long-term growth.

Factual evidence suggests that workforce diversity, characterized by heterogeneous and complementary skills, is beneficial for innovation and problem-solving. Such diversity enhances creativity and allows organizations to adapt better to complex markets. Statement B is incorrect because it falsely claims that diversity is detrimental. Effective management of diverse groups actually promotes organizational growth, making it a strategic advantage rather than a hindrance to success.

59. (A) Role Isolation

Role isolation occurs when an individual performs a role that feels distant or disconnected from their primary duties and expertise. The field officer's struggle with the accountant's tasks, which are unfamiliar and rarely interacted with, highlights this perceived distance. It is not necessarily a lack of general skill but a lack

of linkage and frequency of interaction with that specific role's unique requirements.

60. (C) P-3, Q-1, R-2, S-4

Holland's typology matches personality types to congruent environments. Realistic types fit physical jobs like mechanics or farmers. Conventional types thrive in structured roles like bank tellers or clerks. Enterprising types are suited for leadership roles like lawyers or managers. Artistic types prefer creative professions like painting or music. These matches ensure a higher degree of job satisfaction and performance through personality-job congruence.

61. (B) Synergy values and exploits the mental, emotional, and psychological differences between people.

Synergy is the concept that a group's collective output is enhanced by combining the diverse strengths and perspectives of its members. Statement A is wrong because the whole person concept acknowledges that personal life impacts work. Statement C is incorrect because the rational economic view focuses on money. Statement D is incorrect because behavior is caused. Thus, valuing differences to improve performance is synergy.

62. (C) They obligate employers to report sexual harassment and establish frameworks to protect women at work.

The POSH Act, 2013, and Section 354 of the IPC focus on creating a safe work environment for women. They mandate that organizations establish Internal Committees and formal mechanisms to address and report instances of sexual harassment. This legal framework moves beyond general equality to specifically protect female employees from misconduct, ensuring that employers are held accountable for maintaining professional safety standards.

63. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

Both statements are factually correct. The POSH Act was enacted in 2013 to protect women from workplace sexual harassment, and the Criminal Law Amendment Act 2013 simultaneously strengthened the IPC. However,

48. (D) Eysenck's theory focused on temperaments believed to be largely controlled by genetic influences.

Hans Eysenck's theory emphasizes the biological basis of personality, focusing on dimensions like extraversion and neuroticism governed by genetics. Raymond Cattell used factor analysis but identified sixteen traits, not two. Type B personality is relaxed and patient, unlike the description in option B. Erikson's model is psychosocial, not based on brain hemisphere dominance. Therefore, Eysenck's focus on genetically influenced temperaments is correct.

49. (B) Failure to outgrow a previous role and effectively take charge of a new role following a promotion.

Role stagnation occurs when an individual is unable to adapt to the demands of a new, higher-level role because they remain mentally attached to their previous position. This lack of growth prevents them from fully assuming their new responsibilities. It differs from role overload, as the primary cause is the individual's inability to transition and develop professionally after a change in status.

50. (C) Type A personality

The executive's behavior, including rapid eating, multitasking, impatience, and aggressive gestures like clenching his fist, is classic evidence of a Type A personality. His tendency to blame others and maintain an untidy desk while under time pressure further reinforces this classification. These individuals often experience high stress levels due to their constant struggle against time and competitive nature, distinguishing them from others.

51. (A) Role Ambiguity

Role ambiguity arises when a person is uncertain about what is expected of them due to vague instructions, a lack of information, or an inability to decode social cues. This is particularly prevalent in newly established roles where duties have not been clearly defined. Without a clear understanding of their responsibilities, the employee experiences stress and difficulty in performing effectively within the organization.

52. (D) Ego — Foundation of unconscious animal instincts of aggression and power.

In Freud's Psycho-analytical Theory, the id is the foundation of unconscious animal instincts and the drive for biological pleasure. The ego is the conscious part that balances the id's impulses with external reality. The super ego acts as the moral conscience. Option D is incorrect because it describes the id's characteristics but attributes them to the ego, which is actually rational.

53. (D) Role Overload

Role overload occurs when an individual faces an excessive number of demands within a limited timeframe, leading to the perception that they cannot fulfill all expectations with their available resources. The accountant's situation—handling staff absence, customer queries, and an urgent meeting simultaneously—perfectly illustrates this form of role stress. It is a quantitative or qualitative excess of work that creates psychological pressure.

54. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Social Learning Theory posits that personality is primarily developed through interaction with the environment and observation of others. The reason accurately explains that behavior is modified based on its consequences in society; positive reinforcement leads to the repetition of certain acts. This environmental interaction and reinforcement mechanism directly support the assertion that social variables are central to an individual's personality development at work.

55. (B) Role Erosion

Role erosion is the subjective distress felt when an individual perceives their job responsibilities are being reduced or taken over by others. In the bank scenario, the original general manager lost planning functions to a newly created position, resulting in a feeling of being less utilized. This specific stressor relates to the loss of important role expectations, even if the hierarchical position remains.

Oct/Nov 2012

79. Two bank officers, X and Y, perform the identical role, possess the same qualifications, and put in equal hours. However, Officer X discovers that Officer Y receives a higher salary and extra perquisites. Distressed by this perceived unfairness, Officer X decides to intentionally lower his daily output to restore balance. Which motivational theory directly explains Officer X's behavioural response?
- (A) Vroom's Expectancy Model
 - (B) McClelland's Achievement Motivation Theory
 - (C) Scientific Management Theory
 - (D) Adams' Equity Theory

May/June 2011

80. To address growing boredom, management assigns a bank clerk currently performing two activities to perform four activities. The new activities belong to the same hierarchical level and require the same level of skill. This horizontal expansion is known as:
- (A) Job Enrichment
 - (B) Job Rotation
 - (C) Employee Participation
 - (D) Job Enlargement

the reason describes a separate legislative amendment rather than explaining the specific underlying cause for the enactment of the POSH Act itself. They are related legal developments occurring in the same timeframe.

64. (A) Only I, II, III, and V

Taylor's Scientific Management assumed workers are primarily motivated by money, while Elton Mayo's Hawthorne studies emphasized social factors. Behavioral scientists criticized Taylor for dehumanizing workers. Statement IV is incorrect because the Human Relations Model focused on satisfying social needs and interpersonal relations rather than piece-rate wages. The shift from Taylor's economic focus to Mayo's social focus represents the evolution of thought.

65. (A) Only I and II

Motivational factors, such as achievement and responsibility, are intrinsic to the work and drive high performance. Their presence is motivating, but their absence does not necessarily lead to extreme dissatisfaction. Statement III is incorrect because company policy, salary, and interpersonal relations are classified as hygiene factors. These extrinsic elements are necessary to prevent dissatisfaction but do not serve as primary motivators.

66. (C) Self-Actualisation Needs

In Maslow's hierarchy, self-actualization represents the highest level of human need. It is the drive to become everything one is capable of becoming, involving the pursuit of personal growth and maximizing potential. Employees seeking to excel in their jobs and achieve the highest level of proficiency are motivated by self-actualization, as they move beyond social and esteem needs toward personal mastery and creativity.

67. (A) Self-esteem need

Publicly acknowledging and praising employees addresses their self-esteem needs. These needs involve the desire for status, recognition, appreciation, and a sense of being a valuable member of a group. Unlike monetary rewards that may target physiological needs, non-monetary incentives like praise focus on the psychological satisfaction derived from being

respected and having achievements validated by others, which enhances internal self-worth.

68. (D) Possibility of Growth

According to Herzberg's Two-Factor Theory, the possibility of growth is a motivational factor because it relates to the intrinsic nature of the job and professional development. Company policy, interpersonal relations, and working conditions are extrinsic hygiene factors. While hygiene factors prevent dissatisfaction, only motivators like achievement, responsibility, and growth opportunities truly engage employees and inspire them to achieve higher performance.

69. (D) Intrinsic and extrinsic rewards

The Porter and Lawler model distinguishes between intrinsic and extrinsic rewards as outcomes of performance. Intrinsic rewards are internal feelings of accomplishment gained from doing the task. Extrinsic rewards are external benefits provided by the organization, such as salary or promotions. The model suggests that the perceived equity of these combined rewards determines an individual's level of satisfaction and their subsequent motivation level.

70. (C) Frustration regression

Clayton Alderfer's ERG Theory includes the frustration-regression principle, which states that if a higher-level need remains unfulfilled, an individual may regress to focusing more heavily on a lower-level need. The employee failing to get a promotion and subsequently prioritizing friendship exemplifies this mechanism. It explains how individuals shift their motivational focus when they face significant barriers to achieving their more complex, higher-order goals.

71. (B) A job assumes a relationship with a supervisor, while a role involves relationships with all who have expectations.

A job is a formal, prescriptive construct often focused on the vertical relationship between an employee and their supervisor. In contrast, a role is a broader concept that includes the expectations of a role set, comprising peers, subordinates, and customers. While a job is defined by specific tasks, a role is defined by the dynamic web of relationships and discretionary behaviors.

- 72.** (A) Individuals with a high need for power derive satisfaction from being social and forming strong interpersonal ties.

The description in option A actually refers to the need for affiliation, not the need for power. According to McClelland, individuals with a high need for power derive satisfaction from influencing others and attaining status. High achievers focus on task success, while those with a high need for affiliation are driven by social connections. Therefore, equating the power motive with social tie-seeking is incorrect.

- 73.** (A) P-3, Q-4, R-1, S-2

Role stressors are distinct psychological pressures. Role Ambiguity is a lack of clarity. Role Overload occurs when demands exceed resources. Role Erosion is a feeling of decreased responsibility or underutilization. Personal Inadequacy is the internal feeling of lacking skills or experience. Correctly identifying these stressors allows organizations to apply targeted interventions, such as training for inadequacy or clearer job descriptions.

- 74.** (B) Only Statement II

Valence is the subjective preference or value an individual places on a particular reward. It is not the objective or actual monetary value but a psychological perception in the employee's mind. Statement I is incorrect because different people value different outcomes; what is highly valuable to one person may be less valuable to another. This subjectivity is a core component of the Expectancy Model.

- 75.** (A) Only I, II, and III

The left hemisphere generally controls the right side of the body and handles logical, linear, and analytical tasks. The right hemisphere governs the left side and is associated with spatial, musical, and holistic thinking. Statement IV is incorrect because speech and sequential ordering are typically functions of the left hemisphere. Understanding these specializations helps explain individual differences in cognitive styles.

- 76.** (C) P-2, Q-1, R-4, S-3

Identifying authors of motivation theories is fundamental to organizational behavior. Clayton Alderfer developed the ERG Theory.

Frederick Herzberg is known for the Two-Factor Theory. David McClelland proposed the Achievement Motivation Theory, and James Stacy Adams formulated the Equity Theory. These theories provide different frameworks for understanding why and how people are motivated to work and achieve goals within an organization.

- 77.** (B) Only I, II, III, and IV

Job enlargement expands a job horizontally by adding more tasks, while job enrichment involves vertical expansion through increased responsibility and delegation. Job rotation reduces boredom by shifting roles at the same level. Statement V is incorrect because job enlargement is a horizontal expansion. Enriching a job typically requires giving employees more autonomy, whereas enlargement simply increases task volume.

- 78.** (C) It is based on the law of effect, where behaviors are selected by their consequences and internal states are overlooked.

Reinforcement theory focuses on external behavior rather than internal needs. It is based on the law of effect, which posits that behavior followed by positive consequences is likely to be repeated, while behavior followed by negative consequences is not. This approach suggests that managers can shape behavior by manipulating rewards and punishments, effectively ignoring the cognitive processes emphasized in other motivation theories.

- 79.** (D) Adams' Equity Theory

Officer X's response is a direct application of Adams' Equity Theory. Upon perceiving an unfair ratio of inputs to outcomes compared to Officer Y, he feels inequity. To restore psychological balance, he decides to lower his inputs. The theory explains that motivation is driven by the desire for fairness, and employees will adjust their effort if they perceive inequity relative to others.

- 80.** (D) Job Enlargement

Job enlargement involves the horizontal expansion of a role by adding more tasks of the same nature and hierarchical level. In the clerk's case, increasing the number of activities without increasing the level of responsibility

or skill required is a classic example of this technique. The goal is to reduce the monotony associated with specialized tasks by providing variety within the job scope.

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across the organisation.

- (B) Strict hierarchical differentiation based on seniority and rank.
- (C) Exclusive reliance on short-term sales-based commissions.
- (D) Absolute secrecy regarding all variable pay disbursements.

Oct/Nov 2005

26. Consider the following final steps involved in designing a compensation structure:
- I. Calculate the predicted base pay for each benchmark job.
 - II. Adjust the predicted pay rates to determine the base pay rate if the company wants to lead in base pay.
 - III. Create pay grades by combining substantially comparable benchmark jobs.
 - IV. Determine the pay range (minimum and maximum) for each pay grade.
- Which of the above encompass the correct procedural steps?
- (A) I, II, and III only
 - (B) II, III, and IV only
 - (C) I, III, and IV only
 - (D) I, II, III, and IV

May/June 2020

27. Under the STARS recognition program, employees accumulate points throughout the year in three domains. Which of the following is NOT one of those domains?
- (A) Mandatory deductions from payroll
 - (B) Compliments from guests
 - (C) Compliments from colleagues
 - (D) Their own suggestions

Oct/Nov 2015

28. Consider the following statements regarding the early history of wage settlement in the Indian banking sector:
- I. In the initial days, salary was decided solely at the discretion of the private banks.
 - II. Trade unions argued that salaries cannot be determined on the only criterion of the bank's capacity to pay.
 - III. Banks contended that they had the capacity to pay higher salaries but the tribunals denied it.
- Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

May/June 2013

29. Which of the following factors forms the main basis on which the level of compensation gets determined, often depending on capacity to pay and cost-benefit analysis?
- (A) External labour union laws
 - (B) Company objectives
 - (C) Minimum Wages Act provisions
 - (D) Arbitrations recommendations

Oct/Nov 2021

30. Identify the incorrect statement regarding the Performance Linked Incentive (PLI) introduced during industry-wide wage settlements in banking.
- (A) It is payable to employees and officers who attained a minimum threshold level of net profit.
 - (B) The amount payable is calculated in terms of number of days of pay (Basic + DA).
 - (C) The PLI is payable to all employees annually in lieu of, rather than over and above, the normal salary payable.
 - (D) The PLI matrix determines the incentive based on the annual performance of the bank, primarily YoY Growth in Operating Profit.

May/June 2024

31. Read the following assertion and reason statements and select the correct option:
- Assertion (A): In banking, the compensation level for candidates with exposure in foreign exchange trade, treasury, or risk management is generally high.
- Reason (R): Such experienced candidates are very scarcely available, leading to high market demand and value.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is

in content and complexity, and placing them under one category may lead to overestimation or underestimation.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

May/June 2012

7. The coverage of a typical climate survey includes several differentiating factors regarding the organisational environment. Which of the following is NOT one of these coverage areas?

- (A) Structure
- (B) Profitability
- (C) Responsibility
- (D) Identity

Oct/Nov 2014

8. Under the Factor Comparison method of job evaluation, how are jobs generally evaluated against one another?

- (A) By comparing jobs factor-by-factor and totaling the assigned point values.
- (B) By assigning an arbitrary market rate to the job as a whole without internal comparison.
- (C) By grouping all whole jobs into predefined and descriptive grade categories.
- (D) By evaluating the employee's personal educational qualifications regardless of job content.

May/June 2019

9. Consider the following statements regarding the consequences of unfavourable climate characteristics:

- I. Employees tend to use job time to confer with peers in order to cope.
- II. There is enhanced loyalty and cooperation among peers across groups.
- III. Employees consider reporting sick and experience reduced communication with superiors.

Which of the above statement(s) is/are correct?

- (A) I and II
- (B) II and III
- (C) I and III

- (D) I, II and III

Oct/Nov 2006

10. Read the following assertion and reason statements and select the correct option:

Assertion (A): The point-ranking method is considered less subjective and virtually error-free as the rater sees the job from all perspectives.

Reason (R): The point-ranking method relies on breaking down a job into key factors and sub-factors, weighting them by importance, and calculating points by multiplying degrees by weights.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2021

11. The following scenario describes an organisational assessment:

A bank decides to assess its internal environment. The HR department notices that employees are frequently reporting sick and there is a high rate of individuals looking for another job. To diagnose the problem, the bank launches a survey that evaluates the employees' feelings about constraints on groups, rules, and communication channels.

Based on the typical coverage of such surveys, which specific parameter is the bank evaluating?

- (A) Structure
- (B) Warmth
- (C) Support
- (D) Standards

Oct/Nov 2010

12. In the context of defining degrees for the compensable factor 'Skills', specifically under the sub-factor 'Education', which educational qualification corresponds to Degree 4?

- (A) HSC
- (B) Bachelors
- (C) Masters

- (D) Masters with membership in Professional Bodies

May/June 2005

13. How is the concept of "Total Rewards" precisely described?
- (A) The exclusive offering of variable pay packages tied to exceptional individual accomplishments.
- (B) The total monetary and non-monetary investments made to attract, retain, and engage employees.
- (C) The mandatory legal framework governing basic wages, bonuses, and dearness allowance.
- (D) The provision of long service awards such as plaques and certificates to retiring staff.

Oct/Nov 2022

14. Compa-ratio serves as an additional tool over Job Evaluation to manage individual pay. Which of the following is NOT typically one of its primary objectives?
- (A) Pay raise
- (B) Promotion
- (C) Finalizing dividend distributions
- (D) Merit Pay

May/June 2018

15. Consider the following statements regarding the distribution of total rewards:
- I. Foundational rewards include base salary, healthcare, retirement, and insurance.
- II. Performance-based rewards include short-term and long-term incentives and profit-sharing plans.
- III. Career and environmental rewards include mentoring programs and talent mobility opportunities.
- IV. Foundational rewards consist exclusively of informal recognition programs and flexible working arrangements.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III
- (B) I, II, and IV
- (C) II, III, and IV
- (D) I, III, and IV

Oct/Nov 2016

16. A receptionist earns an actual salary of Rs. 26,000 per year. The market pay range for this

position is between Rs. 20,000 and Rs. 28,000 per year, with the midpoint at Rs. 24,000. What is the compa-ratio for this receptionist?

- (A) 95.8%
- (B) 100%
- (C) 108.3%
- (D) 116.7%

May/June 2014

17. In which year was the standard Total Rewards Model originally introduced to demonstrate the dynamic relationship between employers and employees?
- (A) 1982
- (B) 1996
- (C) 2000
- (D) 2007

Oct/Nov 2007

18. Read the following assertion and reason statements and select the correct option:
- Assertion (A): If an individual's compa-ratio is exactly 100%, the individual is already being paid what a competent performer would be.
- Reason (R): A compa-ratio of 100% signifies that the actual salary matches the highest extreme of the pay range for that position.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2025

19. Match the total rewards elements in List I with their descriptions in List II and choose the correct option:

List I: (Total Rewards Elements)

- P. Compensation
- Q. Performance Management
- R. Recognition
- S. Benefits

List II: (Descriptions)

1. Programs used to supplement cash compensation, providing security for employees and families.
2. Pay provided for services rendered,

including both fixed and variable pay.

3. Programs that give special attention to employee actions and reinforce extraordinary behaviors.
 4. Alignment of efforts toward the achievement of business goals, including continuous improvement.
- (A) P-2, Q-4, R-3, S-1
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

Oct/Nov 2019

20. Consider the following statements regarding fixed and variable compensation levels:
- I. A fixed level of compensation assures payment at an agreed rate irrespective of how employees perform their jobs.
 - II. A variable level of compensation ensures that performance drops due to reasons beyond an employee's control are completely insulated from pay reductions.
- Which of the above statement(s) is/are correct?
- (A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

May/June 2009

21. Read the following assertion and reason statements and select the correct option:
Assertion (A): Reward strategy determines the direction in which reward management innovations and developments should go.
Reason (R): Reward strategy is designed to support the business strategy, detailing how initiatives should be integrated and prioritized.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2011

22. Consider the following statements regarding the mixed compensation level:

- I. It attempts to remove the drawbacks of both fixed and variable systems while securing the benefits of both.
- II. It assumes a fully variable base with no guaranteed fixed level of compensation.
- III. It presupposes a well-established performance appraisal system to determine the additional compensation depending on the level of performance.

Which of the above statement(s) is/are correct?

- (A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2010

23. Consider the following statements regarding the critical identifying characteristics of Total Rewards components:
- I. To be considered part of Total Rewards, the component must consist of a specific program that the company makes an investment in and manages.
 - II. To be considered part of Total Rewards, the component must have some specific ascribed value in the eyes of employees.
- Which of the above statement(s) is/are correct?
- (A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

Oct/Nov 2024

24. A bank implements a compensation model where an employee, whose total cost to the company is fixed beforehand, can elect to allocate a higher portion of their package to House Rent Allowance to maximize permissible tax benefits. Which structural approach to compensation is the bank utilising?
- (A) Cafeteria or Menu option
(B) Statutory Minimum Wage Structure
(C) Non-quantitative grading structure
(D) Fixed universal wage structure

May/June 2017

25. What is the foundational philosophy behind the compensation and benefit programs at Whole Foods Market?
- (A) Egalitarianism with similar structures

CHAPTER 13

Employees' Feedback and Reward System

Oct/Nov 2009

1. According to the current practice for workman staff in industry-wide settlements, what is the specified period for which such a settlement remains binding on the parties?
(A) 2 years
(B) 3 years
(C) 5 years
(D) 10 years

May/June 2016

2. How is Job Evaluation conceptually defined in human resource management?
(A) It is the process of reviewing the annual performance of an individual to sanction increments.
(B) It is the method of measuring prevailing market rates through an external wage survey.
(C) It is the process of assessing the relative worth of jobs based on content and complexity.
(D) It is the statutory requirement to calculate the deferred wages to be paid as a yearly bonus.

May/June 2023

3. In research concerning organisational satisfaction, what is an aspect with which employees have frequently expressed they were least satisfied?
(A) The opportunities they had to participate in the decision-making of the organisation.
(B) The level of fixed compensation compared to the current prevailing market rates.
(C) The lack of recreational activities and work-life effectiveness initiatives.
(D) The frequency of formal performance appraisal interviews conducted by line managers.

Oct/Nov 2018

4. Match the job evaluation techniques in List I with their corresponding category in List II and choose the correct option:

List I: (Job Evaluation Techniques)

- P. Ranking Method
- Q. Point Rating Method
- R. Job Classification
- S. Factor Comparison

List II: (Method Category)

- 1. Quantitative
- 2. Non-quantitative
- 3. Quantitative
- 4. Non-quantitative
- (A) P-1, Q-2, R-3, S-4
- (B) P-4, Q-3, R-2, S-1
- (C) P-2, Q-1, R-4, S-3
- (D) P-2, Q-3, R-4, S-1

May/June 2007

5. Which of the following accurately describes the analytical approach to climate surveys within an organisation?
(A) Individual scores are measured exclusively and kept strictly confidential from all departmental heads.
(B) Results are processed solely by line managers without any intervention from the HRD department.
(C) Surveys are designed to bypass top management and deliver results directly to lower-level workgroups.
(D) Scores are typically analysed by department or division to allow for internal comparisons.

Oct/Nov 2025

6. Consider the following statements concerning Job Classification or Job Grading:
I. Job grades are defined and jobs are classified into grades by comparing the whole Job Description with the graded definition.
II. A major advantage of this method is that it is less subjective as compared to the ranking method and is acceptable to employees.
III. A major limitation is that jobs may differ

true.

Oct/Nov 2008

- 32.** Consider a career enhancement program based on four basic principles. Consider the following elements:

- I. Passion to Perform
- II. Pride in belonging to a winning team
- III. Path to Progress in your Career
- IV. Prosperity in your life through attractive rewards and growth
- V. Punishment for operational discrepancies

Which of the above correctly represent the intended principles of such a program?

- (A) I, II, III, and V
- (B) II, III, IV, and V
- (C) I, II, III, and IV
- (D) I, III, IV, and V

May/June 2006

- 33.** Match the wage concept in List I with its defining characteristic in List II and choose the correct option:

List I: (Wage Concept)

- P. Minimum wages
- Q. Living wages
- R. Fair wages
- S. Need-based minimum wages

List II: (Defining Characteristic)

- 1. Considers the aspect of satisfaction of social needs and insurance coverage.
- 2. Aimed at satisfying the minimum human needs of the worker.
- 3. Wage level merely to sustain the worker.
- 4. Determined on the capacity to pay, covering productivity, prevailing rates, and economic scenario.

- (A) P-1, Q-4, R-2, S-3
- (B) P-3, Q-1, R-4, S-2
- (C) P-3, Q-4, R-1, S-2
- (D) P-4, Q-2, R-3, S-1

Oct/Nov 2017

- 34.** An employee at a financial institution wishes to informally recognise a subordinate for their exceptional effort on a recent project. The employee logs into an online platform and sends a virtual e-card to express appreciation. Which specific type of platform is the employee utilising?

- (A) Automated Sales Incentive
- (B) Core Values Platform

- (C) Peer-to-Peer Appreciation Platform
- (D) Residential Benefits Platform

May/June 2008

- 35.** A manufacturing firm evaluates its compensation policy. Management notes that while they cannot afford to cover extensive social needs and insurance coverage, they possess enough financial capacity to pay slightly above the bare subsistence level, factoring in the prevailing economic scenario and worker productivity. According to wage theories, which level of wage is the firm offering?

- (A) Fair wages
- (B) Minimum wages
- (C) Need-based minimum wages
- (D) Living wages

Oct/Nov 2013

- 36.** Consider the following statements regarding Long Service Awards in a corporate setting:

- I. They aim at appreciating the commitment employees make towards the organisation.
- II. They acknowledge loyalty and dedication.
- III. Employees are recognised upon completing 5, 10, and 15 years of service.
- IV. They are exclusively reserved for top managerial executives.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, III, and IV

May/June 2015

- 37.** When a company's corporate strategy is "Cost Cutting" and the HR program is "Efficiency & Operational Excellence", consider the following compensation systems:

- I. Focus on competitors labour cost
- II. Increase variable pay
- III. Emphasise productivity
- IV. Focus on system Control and work specifications

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, III, and IV

Oct/Nov 2012

38. A newly hired manager is relocating to a new city to assume their role. To ensure a smooth transition, the organisation steps beyond just offering salaries and provides temporary housing arrangements to help the manager settle down. What is this specific shared accommodation facility typically called in certain industries?

(A) Executive Penthouse Allowance
(B) Progression Housing
(C) Chummy accommodation
(D) Appreciation Quarters

May/June 2011

39. Arrange the following labour enactments of the Indian Government in chronological order of their passing:

I. The Minimum Wages Act
II. The Payment of Bonus Act
III. The Payment of Wages Act
IV. The Equal Remuneration Act

(A) III, I, II, IV
(B) I, III, II, IV
(C) III, II, I, IV
(D) II, I, III, IV

Oct/Nov 2020

40. Identify the incorrect statement regarding the application of performance-linked variable compensation in private sector organisations.

(A) The variable part of the compensation is generally disclosed publicly among all employees to foster intense peer competition.
(B) Both variable and mixed compensation theories presuppose a well-established performance appraisal system.
(C) Employees are typically prohibited from disclosing their variable pay components to other employees.
(D) It seeks to remove the drawbacks of purely fixed systems by inducing high performance through financial rewards.

May/June 2022

41. Consider the following objectives fulfilled by the various legislative Acts governing wage administration:

I. Ensuring payment of wages at regular intervals.
II. Prohibiting unauthorised deductions from

wages.

- III. Providing for payment of bonus in the form of deferred wages every year irrespective of profit or loss.
IV. Propounding the principle of equal remuneration for equal jobs to both men and women.
V. Ensuring a bare minimum level of compensation to protect workers from irrational exploitation.

Which of the above encompass the overarching protections provided by these Acts?

(A) I, II, and V only
(B) II, III, IV, and V only
(C) I, III, and IV only
(D) I, II, III, IV, and V

Oct/Nov 2023

42. How is an employee feedback system defined in the context of human resource management?

(A) It is the systematic process of evaluating an employee's financial performance based on annual corporate goals.
(B) It involves an exchange of information regarding skills and performance used to drive continuous improvement.
(C) It is a top-down communication channel utilized for delivering disciplinary actions and formal performance warnings.
(D) It is an automated software system used to track the daily attendance and operational output of all workmen.

Oct/Nov 2009

43. Job evaluation serves multiple critical objectives within an organisation. Which of the following is NOT an objective of job evaluation?

(A) To determine the dividend payout ratio for shareholders.
(B) To determine the compensation rates.
(C) To link pay with the requirement of the job.
(D) To provide for pay differentials taking into account skills, efforts, and hazards.

May/June 2016

44. Consider the following statements regarding the gathering of employee information and feedback:

I. At the formal level, information is gathered through discussions with

employee representatives and observations of behaviour patterns.

- II. At the informal level, feedback is gathered through well-designed questionnaires, psychological instruments, and suggestion schemes.

Which of the above statement(s) is/are correct?

- (A) Only I is correct
- (B) Only II is correct
- (C) Both I and II are correct
- (D) Neither I nor II is correct

May/June 2023

45. Identify the incorrect statement regarding the Ranking Method of job evaluation.
- (A) Each job as a whole is compared with others until all jobs have been evaluated and ranked.
 - (B) The job is broken down into specific compensatory factors before evaluation begins.
 - (C) An overall analysis of the job is done without dissecting it into sub-components.
 - (D) It is very easy to understand and is considered the least expensive method.

Oct/Nov 2018

46. Which of the following pairs correctly matches a climate survey dimension with its description?
- (A) Risk — The feeling of being your own boss and clarity of role and responsibility.
 - (B) Support — The general feeling of fellowship that prevails in the workgroup atmosphere.
 - (C) Standards — The perceived importance of implicit and explicit goals and performance standards.
 - (D) Warmth — The process of conflict resolution and the opportunity to express views.

May/June 2007

47. In an office, the HR department uses job grading to categorise employees. The Deputy Office Manager and Departmental Supervisor are placed in Class I, while File Clerks and Office Boys are placed in Class IV. Based on standard grading classifications, what designations correspond to Class I and Class IV respectively?

- (A) Skilled workers and Executives
- (B) Semiskilled workers and Skilled workers
- (C) Executives and Managerial trainees
- (D) Executives and Semiskilled workers

Oct/Nov 2025

48. Match the climate survey elements in List I with their corresponding descriptions in List II and choose the correct option:

List I: (Climate Survey Elements)

- P. Reward
- Q. Conflict
- R. Identity
- S. Responsibility

List II: (Descriptions)

1. The feeling of belonging to the organisation and perceived value in the work group.
2. Clarity of role and responsibility vis-à-reference to superior, subordinates and peers.
3. The feeling that managers and workers want to hear different opinions.
4. The perception about pay, promotion, and the punishment system.

- (A) P-1, Q-4, R-2, S-3
- (B) P-3, Q-1, R-4, S-2
- (C) P-4, Q-2, R-3, S-1
- (D) P-4, Q-3, R-1, S-2

May/June 2012

49. Using the Factor Comparison method, an organisation needs to determine the base rate for a 'toolmaker'. Upon comparison, the toolmaker's job is evaluated with the following values: skill equivalent to an electrician (5), mental requirements to a welder (10), physical requirements to an electrician (12), working conditions to a mechanist (24), and responsibility to a mechanist (3). What will be the calculated wage rate for the toolmaker's job?

- (A) Rs. 44
- (B) Rs. 54
- (C) Rs. 64
- (D) Rs. 48

Oct/Nov 2014

50. Identify the incorrect statement regarding the execution and communication of employee surveys.

- (A) If the survey is not done scientifically, it can create more problems than it can

program: Operational Excellence and Service quality.

- (C) Strategy: Innovative → HR program: Committed to agile, risk taking, innovative people.
- (D) Strategy: Cost Cutting → Compensation system: Reward Innovation and lean production.

May/June 2008

- 77.** Consider the following benefits provided to employees in a modern banking environment:
- I. Compensation packages benchmarked with leading industry players.
 - II. Comprehensive medical assistance facility.
 - III. Shared temporary accommodation to facilitate settling down.
 - IV. Emergency loans during contingencies like marriage, illness, and death.
 - V. Mandatory wage deductions for internal values programs.

Which of the above accurately reflect the benefits offered under employee well-being?

- (A) I, II, III, and IV only
- (B) II, III, IV, and V only
- (C) I, III, IV, and V only
- (D) I, II, III, IV, and V

Oct/Nov 2013

- 78.** A private sector bank shifts its corporate strategy to aggressively focus on delighting clients and exceeding expectations. As an HR manager mapping the compensation system to this new strategy, which specific approach should be adopted?
- (A) Implementing market-based pay structures with high levels of operational flexibility.
- (B) Focussing on competitor labour costs while increasing the ratio of variable pay.
- (C) Linking job value to customer contact and implementing satisfaction-based incentives.
- (D) Emphasising individual productivity benchmarks and strict technical work specifications.

May/June 2015

- 79.** An employee faces an unexpected medical emergency involving a close family member and requires immediate financial assistance that exceeds their standard medical insurance limits. According to standard corporate well-

being policies, what specific provision is made available to assist the employee during such an exigency?

- (A) A mandatory deduction from their Provident Fund.
- (B) Access to a performance-linked variable bonus in advance.
- (C) Reclassification of their job grade to increase base salary.
- (D) Provision of emergency loans.

Oct/Nov 2012

- 80.** Which legislation prescribes the regular and timely payment of wages and prevents arbitrary fines or unauthorised deductions being made from wages?
- (A) The Minimum Wages Act, 1948
- (B) The Equal Remuneration Act, 1976
- (C) The Payment of Bonus Act, 1965
- (D) The Payment of Wages Act, 1936

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May/June 2018

57. An employee holds a compa-ratio of 91%. Based on the five ordinarily defined compa-ratio zones, how should management classify the performance and experience level of this employee?
- (A) As a new, inexperienced or unsatisfactorily-performing incumbent.
 - (B) As someone gaining experience but not yet fully competent in the job.
 - (C) As a fully competent performer performing the job as defined.
 - (D) As someone universally recognised as an outstanding performer.

Oct/Nov 2016

58. Which of the following statements accurately represents one of the six elements of total rewards?
- (A) Work-Life Effectiveness is exclusively focused on providing retirement financial planning tools.
 - (B) Talent Development provides tools for employees to advance their skills and long-term careers.
 - (C) Recognition refers solely to the formal alignment of organisational business goals with executive pay.
 - (D) Benefits are defined as the variable pay tied directly to strict individual production quotas.

May/June 2014

59. Three types of compensation linked to performance are identified: fixed, totally variable, and mixed. What is the fundamental rationale behind linking compensation to performance?
- (A) It recognizes varying skill levels and performance, motivating all employees.
 - (B) It eliminates the need for any form of formal job evaluation.
 - (C) It ensures that every employee, regardless of output, receives exactly the same total pay.
 - (D) It transfers the financial risks of the company entirely onto the unskilled workforce.

Oct/Nov 2007

60. An organisation introduces a new policy allowing employees to choose hybrid working

hours to actively support their efforts in achieving success at both work and home. Under which specific element of the Total Rewards strategy does this policy fall?

- (A) Performance Management
- (B) Talent Development
- (C) Work-Life Effectiveness
- (D) Compensation

May/June 2025

61. What is a primary drawback of a totally variable level of compensation in a service industry?

- (A) It encourages low performers to remain complacent.
- (B) Performance measurement is difficult and error-prone, which may lead to frustration.
- (C) It converts high performers into mediocre performers due to guaranteed fixed payouts.
- (D) It restricts management from evaluating the number of manufactured pieces against quality benchmarks.

Oct/Nov 2019

62. Developing the purpose statement for a Primary Reward Program involves answering specific core questions. Consider the following questions:

- I. Why does each program exist?
- II. Why is it meaningful to your employees?
- III. How does it give the organisation a competitive advantage?

Which of the above questions should be addressed?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

May/June 2009

63. Which of the following correctly describes a modern trend in private sector compensation structures?

- (A) Companies rigidly enforce traditional wage structures linked to the consumer price index.
- (B) Variable compensation parts are widely published among all employees to promote transparency.
- (C) Medical benefits and leave fare concessions are excluded from the total cost to the

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26. (D) I, II, III, and IV

Designing a compensation structure involves several methodical steps. It begins with calculating the predicted base pay for benchmark jobs and adjusting these rates based on the desired market position. Subsequently, similar jobs are combined into pay grades. Finally, specific pay ranges, including minimum and maximum limits, are established for each grade to ensure systematic and equitable salary administration.

27. (A) Mandatory deductions from payroll

The STARS recognition program is designed to reward employees for positive contributions and service excellence. It typically focuses on three domains: compliments received from guests, compliments from colleagues, and the employee's own innovative suggestions. Mandatory payroll deductions are a legal requirement for taxes and social security and are not related to the voluntary domains of a reward system.

28. (A) I and II only

In the early history of the Indian banking sector, salaries were largely at the discretion of individual private banks. Trade unions eventually challenged this, arguing that compensation should not be based solely on a bank's capacity to pay but should also consider worker needs. This conflict led to the involvement of tribunals and the eventual shift toward bipartite wage settlements.

29. (B) Company objectives

Company objectives are a primary internal factor that determines the level of compensation an organization offers. These objectives guide the capacity to pay and involve detailed cost-benefit analyses to ensure that the compensation strategy supports the business's goals. While laws and unions play a role, the organization's strategic vision ultimately dictates how resources are allocated to retain talent.

30. (C) The PLI is payable to all employees annually in lieu of, rather than over and above, the normal salary payable.

The Performance Linked Incentive in the banking sector is an additional reward paid annually to employees based on the bank's

year-on-year growth in operating profit and net profit. It is calculated as a specific number of days of pay. Crucially, the PLI is paid over and above the normal salary and is not intended to replace regular compensation.

31. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Compensation levels for specialized roles in foreign exchange, treasury, and risk management are typically higher due to the scarcity of qualified candidates. The specialized skill sets required for these functions create high market demand. Since there is a limited supply of experienced professionals in these niche areas, organizations must offer competitive salaries to attract and retain the necessary expertise.

32. (C) I, II, III, and IV

Effective career enhancement programs are built on four core principles: passion to perform, pride in belonging to a winning team, a clear path to progress in one's career, and prosperity through attractive rewards. These principles aim to motivate employees by aligning their personal growth and financial well-being with organizational success. Punishment is a disciplinary matter rather than a career principle.

33. (B) P-3, Q-1, R-4, S-2

Minimum wages are intended to sustain the worker at a basic level, while need-based minimum wages specifically address essential human needs. Fair wages are an intermediate level determined by productivity and the employer's capacity to pay. Finally, living wages are a higher socio-economic ideal that includes social needs and insurance coverage, ensuring a standard of living.

34. (C) Peer-to-Peer Appreciation Platform

A peer-to-peer appreciation platform allows employees to recognize one another's efforts informally through digital tools like virtual e-cards. This type of recognition fosters a culture of gratitude and strengthens teamwork by bypassing traditional top-down hierarchies. By enabling immediate and public acknowledgment of contributions, these platforms enhance employee engagement and morale across

true, but Reason (R) is not the correct explanation of Assertion (A).

- (C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2015

70. The levels of compensation are determined by internal and external factors. Consider the following factors:

- I. Capacity of the company to pay
- II. Bargaining power of the unions
- III. Labour laws governing wages
- IV. Motivational factor
- V. Recommendations of pay commissions

Which of the above represent the internal factors?

- (A) I, II, and IV only
(B) III, IV, and V only
(C) I, III, and V only
(D) II, III, and IV only

May/June 2013

71. A public sector bank achieves a YoY Growth in Operating Profit of 12% for the financial year. The bank has successfully recorded a Net Profit for the same period. According to the standard PLI (Performance Linked Incentive) Matrix, how many days of salary (Basic + DA) shall be paid as incentive to the employees?

- (A) Nil
(B) 5 days
(C) 10 days
(D) 15 days

Oct/Nov 2021

72. Which of the following pairs incorrectly classifies a factor determining compensation levels?

- (A) Compensation surveys — Internal factor
(B) Attraction and retention pressures — Internal factor
(C) Provisions of Companies Act regarding managerial remuneration — External factor
(D) Bargaining power of the unions — Internal factor

May/June 2024

73. Which of the following pairs concerning organisational rewards and recognition programs is incorrectly matched?

- (A) Values-based Platform — Platform for informal recognition from co-workers through online e-cards.
(B) Automated Sales Reward — Aimed at the entire Sales force; time-bound and automatic.
(C) Long Service Awards — Acknowledging loyalty and dedication for 5, 10, & 15 years of service.
(D) Peer Appreciation System — A Language of Appreciation allowing the exchange of virtual e-cards.

Oct/Nov 2008

74. In the conceptualisation of different wage levels, which concept represents an intermediate level that lies between sustaining the worker and the ultimate socio-economic ideal, determined primarily by the organisation's capacity to pay and worker productivity?

- (A) Minimum wages
(B) Fair wages
(C) Need-based minimum wages
(D) Living wages

May/June 2006

75. What is the primary purpose of a "Values-based Excellence" reward program in an organisation?

- (A) To reward employees for exhibiting the right behaviors and exemplifying the organisation's core values.
(B) To provide emergency loans to employees during medical contingencies.
(C) To formally calculate the compa-ratio for annual salary increments.
(D) To distribute the annual Performance Linked Incentive based on operating profit.

Oct/Nov 2017

76. According to the alignment of Corporate Strategy, HR Strategy, and Compensation System, which of the following is correctly paired?

- (A) Strategy: Innovative → Compensation system: Emphasise productivity and focus on system control.
(B) Strategy: Customer Focused → HR

NODIA

relative worth and salary level for the specific job.

9. (C) I and III

An unfavorable organizational climate often leads to negative behavioral outcomes among staff. Employees may spend excessive work time conferring with peers as a coping mechanism or experience a significant breakdown in communication with their superiors. Increased absenteeism and a lack of loyalty are common indicators of a deteriorating work environment, which ultimately hinders collective organizational performance.

10. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

The point-ranking method reduces subjectivity by systematically decomposing jobs into specific sub-factors and degrees. Each component is weighted according to its importance to the organization. By calculating points through these detailed metrics, the rater gains a comprehensive perspective on the job. This structured approach ensures that the evaluation remains objective and virtually free from common rating errors.

11. (A) Structure

In organizational climate assessments, the dimension of structure refers to employees' feelings about the various constraints placed on their workgroup. This includes the prevalence of rigid rules, formal regulations, and the efficiency of communication channels. High rates of dissatisfaction or withdrawal behaviors often signal that the organizational structure is perceived as overly restrictive or bureaucratic by the staff.

12. (D) Masters with membership in Professional Bodies

Under the point method of job evaluation, compensable factors like skills are divided into specific degrees. For the education sub-factor, Degree 4 represents a high level of specialized knowledge. This typically corresponds to an individual possessing a Master's degree along with active membership in relevant professional bodies, indicating the advanced expertise required to perform the specific job functions.

13. (B) The total monetary and non-monetary investments made to attract, retain, and engage employees.

Total rewards encompass the comprehensive set of tools used by employers to attract, motivate, and retain employees. This includes both tangible monetary compensation, such as base pay and incentives, and intangible non-monetary elements like benefits, work-life effectiveness, and career development. The goal is to create a holistic value proposition that aligns employee well-being with organizational success.

14. (C) Finalizing dividend distributions

A compa-ratio is a critical compensation metric used to assess where an individual's salary stands relative to the midpoint of their pay range. It is primarily used for managing pay raises, promotions, and merit-based adjustments to ensure internal equity. However, it is not used for financial management tasks like dividend distributions, which are based on corporate profitability and shareholder policy.

15. (A) I, II, and III

A comprehensive total rewards strategy includes foundational rewards like salary and healthcare, performance-based rewards such as incentives, and career-oriented rewards like mentoring. These categories work together to address different employee needs and organizational goals. Informal recognition and flexible work arrangements are usually classified under environmental or work-life effectiveness rather than being the sole components of foundational rewards.

16. (C) 108.3%

The compa-ratio is calculated by dividing the actual salary paid to an employee by the midpoint of the established pay range for that specific position. For a receptionist earning Rs. 26,000 where the midpoint is Rs. 24,000, the ratio is determined as 26,000 divided by 24,000. This results in a value of approximately 108.3%, indicating the salary is above midpoint.

17. (C) 2000

The standardized Total Rewards Model was originally introduced in the year 2000 to highlight the evolving and dynamic relationship

ANSWERS

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1. (C) 5 years
Industry-wide settlements in the banking sector, particularly those involving workman staff, follow a structured bipartite process. These agreements are negotiated between the Indian Banks' Association and representative trade unions. Currently, such settlements are designed to remain binding for a specified five-year duration, ensuring stability in wage structures and service conditions across the industry.
2. (C) It is the process of assessing the relative worth of jobs based on content and complexity. Job evaluation is a systematic process used in human resource management to determine the relative value of different roles within an organization. It focuses on the content and complexity of the job rather than individual performance. This method helps establish internal equity by ranking jobs based on factors like responsibility, skills, and effort required.
3. (A) The opportunities they had to participate in the decision-making of the organisation. Research indicates that while employees may be satisfied with compensation or basic benefits, they frequently express dissatisfaction regarding their involvement in organizational governance. The lack of opportunities to participate in decision-making processes often leads to a sense of disempowerment. Enhancing employee voice is crucial for improving overall morale and fostering a deeper commitment to the company.
4. (D) P-2, Q-3, R-4, S-1
Job evaluation methods are categorized into non-quantitative and quantitative techniques. The ranking and job classification methods are non-quantitative because they compare whole jobs without assigning numerical values. Conversely, the point rating and factor comparison methods are quantitative, as they break jobs down into specific factors and assign numerical scores to determine their relative worth.
5. (D) Scores are typically analysed by department or division to allow for internal comparisons. Climate surveys are essential diagnostic tools used to measure employee perceptions of the internal environment. For meaningful analysis, results are typically aggregated by department or division rather than individuals. This approach allows management to identify specific areas of concern within workgroups, facilitate internal comparisons, and develop targeted interventions to improve the overall atmosphere and productivity.
6. (D) I, II, and III
Job classification involves defining specific grades and assigning roles by comparing job descriptions to these definitions. This method is generally more acceptable and less subjective than simple ranking. However, it faces limitations when diverse jobs are grouped into single categories, potentially leading to the overestimation or underestimation of a role's actual complexity and requirements within the organization.
7. (B) Profitability
Organizational climate surveys focus on subjective perceptions of the internal environment, such as structure, responsibility, rewards, and identity. These dimensions reflect how employees experience their daily work life and interactions. While profitability is a critical financial performance metric for the organization, it is not considered a direct dimension of internal climate as perceived by individual employees.
8. (A) By comparing jobs factor-by-factor and totaling the assigned point values.
The factor comparison method is a sophisticated quantitative approach to job evaluation. It involves breaking down jobs into several compensable factors, such as mental requirements, physical effort, and responsibility. Evaluators compare these factors across different roles and assign monetary or point values to each. The total value determines the

company.

- (D) Companies offer 'cafeteria' options, allowing employees to allocate their own total package.

Oct/Nov 2011

64. A leading technology company structures its compensation programs around three main goals: attracting the world's best talent, supporting a culture of innovation, and aligning employees with stockholders' interests. They focus on designing compelling job opportunities and a fun, energizing environment. This philosophy closely reflects the total rewards design of which prominent organisation?
- (A) Whole Foods Market
(B) Taj Hotels Resorts
(C) Kotak Mahindra Bank
(D) Google

May/June 2010

65. When designing a compensation structure, what is the correct chronological sequence of the following initial steps?
- I. Calculate the job evaluation points for the jobs.
 - II. Create a complete job description for jobs.
 - III. Conduct a simple regression to create a market pay line.
 - IV. Identify and consider outliers in the dataset.
- (A) I, II, III, IV
(B) II, I, IV, III
(C) II, IV, I, III
(D) I, IV, II, III

Oct/Nov 2024

66. Consider the following statements regarding the employee recognition system known as STARS (Special Thanks and Recognition System) used in the hospitality industry:
- I. The system links customer delight to employee rewards.
 - II. Expressions of gratitude must come strictly from the top management and board of directors.
 - III. Employees accumulate points from guests, colleagues, and their own suggestions.
 - IV. The timing of the recognition is usually more important than the reward itself.
- Which of the above statement(s) is/are

correct?

- (A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

May/June 2017

67. In the historical evolution of salary determination in the Indian banking industry, which of the following mechanisms provided early examples of how arguments were articulated and salaries decided by a third party for bankmen?
- (A) The Sastry Award and the Desai Award
(B) The Minimum Wages Act tribunals
(C) The Schuster Human Resource Index
(D) The Armstrong & Murlis framework

Oct/Nov 2005

68. Match the job classification in List I with its commonly referred compensation term in List II and choose the correct option:
- List I: (Job Classification)
- P. Managerial (top, middle, junior)
Q. Supervisory
R. Clerical or Administrative
S. Unskilled and skilled
- List II: (Compensation Term)
1. Salary
 2. Wages
 3. Remuneration
 4. Salary
- (A) P-1, Q-2, R-3, S-4
(B) P-2, Q-3, R-1, S-4
(C) P-4, Q-1, R-2, S-3
(D) P-3, Q-1, R-4, S-2

May/June 2020

69. Read the following assertion and reason statements and select the correct option:
- Assertion (A): Since 1966, the wages for "workman" staff in Indian banking are settled through Bipartite Settlements.
- Reason (R): These settlements take place between the Management of Banks (represented by the Indian Banks' Association) and their Workmen (represented by central trade unions).
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are

between employers and employees. This model integrated various elements like compensation, benefits, and work-life balance into a single strategic framework. It provided organizations with a more comprehensive way to view their investment in human capital beyond traditional systems.

18. (C) Assertion (A) is true, but Reason (R) is false.

A compa-ratio of exactly 100% signifies that an individual's actual salary is equal to the midpoint of the pay range. This level typically indicates that the employee is a fully competent performer. It does not represent the highest extreme of the pay range; rather, it marks the market-competitive rate for a person performing the job as it is defined.

19. (A) P-2, Q-4, R-3, S-1

In a total rewards framework, compensation refers to pay for services rendered, while benefits include supplementary programs like insurance. Performance management involves aligning employee efforts with organizational goals to drive continuous improvement. Recognition consists of programs that highlight extraordinary behaviors and achievements. Together, these elements form a comprehensive strategy to engage and motivate the workforce toward business objectives.

20. (A) Only I is correct

A fixed compensation system guarantees a specific payment rate regardless of individual performance levels, providing financial stability for employees. In contrast, variable compensation is designed to fluctuate based on performance outcomes. Unlike fixed systems, variable pay does not insulate employees from reductions if performance targets are not met, as the payout is directly linked to results.

21. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

A reward strategy serves as a blueprint that guides the direction of reward management and innovation within an organization. It is deliberately designed to align with and support the broader business strategy. By detailing how various reward initiatives should be integrated

and prioritized, the strategy ensures that the organization motivates behaviors that contribute directly to achieving long-term objectives.

22. (C) I and III only

Mixed compensation systems combine the security of fixed pay with the motivational benefits of variable pay. This approach aims to eliminate the drawbacks of both systems by providing a guaranteed base while rewarding high performance. Such a model requires a robust performance appraisal system to accurately determine additional compensation, ensuring that rewards are fairly distributed based on verified achievements.

23. (C) Both I and II are correct

To be formally classified as part of a total rewards package, a component must meet two specific criteria. First, it must be a managed program in which the company actively invests resources. Second, the component must have a perceived value in the eyes of the employees. These characteristics ensure that the reward is both tangible for the organization and meaningful for staff.

24. (A) Cafeteria or Menu option

A cafeteria or menu option compensation structure allows employees to customize their package based on their individual needs and tax situations. In this model, the total cost to the company is fixed, but the employee can choose how to allocate that amount among various allowances, such as house rent. This flexibility helps maximize take-home pay by utilizing tax benefits.

25. (A) Egalitarianism with similar structures across the organisation.

Whole Foods Market operates on a philosophy of egalitarianism in its compensation and benefit programs. This approach emphasizes similar structures across the entire organization to foster a sense of fairness and unity. By minimizing hierarchical differentiation, the company aims to create a collaborative environment where all team members feel valued and share in the success of the business.

solve.

- (B) The help of some expert may be taken especially in designing the questionnaire and selecting sample respondents.
- (C) It is always desirable to keep survey results highly confidential to avoid employee confusion.
- (D) If employees are not prepared to voice their genuine opinion constructively, the survey may be counter-productive.

May/June 2019

51. An HR executive is evaluating the job of a Receptionist using the Point Method. The factor "Responsibility" accounts for 30% of the total score. It is divided into "Scope of Control" (Degree 1, Weight 10%) yielding 10 points, and "Impact of Job" (Degree 2, Weight 20%). What are the points allocated for "Impact of Job" and the total points for the Receptionist job if all other factors sum to 70 points?
- (A) 20 points for Impact, 100 points total
 - (B) 40 points for Impact, 120 points total
 - (C) 30 points for Impact, 110 points total
 - (D) 40 points for Impact, 100 points total

Oct/Nov 2006

52. What is viewed as the main attraction for an individual to join or change a job?
- (A) The provision of informal recognition through social networking groups.
 - (B) The opportunity to participate in corporate social responsibility initiatives.
 - (C) The availability of a cafeteria option for minor non-financial perquisites.
 - (D) Wages received as compensation for contributions made to the organisation.

May/June 2021

53. How is the "Compa-ratio" mathematically defined in compensation management?
- (A) Actual salary divided by the lowest salary of the pay range, multiplied by 100.
 - (B) Actual salary divided by the highest salary of the pay range, multiplied by 100.
 - (C) Midpoint of the pay range divided by the actual salary, multiplied by 100.
 - (D) Actual salary divided by the midpoint of the pay range, multiplied by 100.

Oct/Nov 2010

54. The total rewards framework indicates three primary categories of rewards that influence decisions to join, perform in, and stay with an organisation. Which of the following is NOT one of these primary categories?
- (A) Pay
 - (B) Benefits
 - (C) Statutory Fines
 - (D) Intangible Rewards

May/June 2005

55. Match the Compa-ratio zones in List I with their corresponding performer descriptions in List II and choose the correct option:

List I: (Compa-ratio Zones)

- P. 80-87%
- Q. 88-95%
- R. 96-103%
- S. 112-120%

List II: (Performer Descriptions)

- 1. Universally recognised as outstanding performers.
 - 2. Fully competent performers performing the job as defined.
 - 3. Those gaining experience but not yet fully competent in the job.
 - 4. New, inexperienced, or unsatisfactorily-performing incumbents.
- (A) P-1, Q-2, R-3, S-4
 - (B) P-4, Q-3, R-2, S-1
 - (C) P-3, Q-4, R-1, S-2
 - (D) P-4, Q-2, R-3, S-1

Oct/Nov 2022

56. A comprehensive rewards system generally rests on five pillars. Consider the following elements:
- I. Compensations
 - II. Benefits
 - III. Flexibility
 - IV. Performance recognition
 - V. Career development
- Which of the above elements represent the five pillars of a comprehensive rewards system?
- (A) I, II, III, and IV only
 - (B) I, II, IV, and V only
 - (C) II, III, IV, and V only
 - (D) I, II, III, IV, and V

different levels of the organization in a user-friendly manner.

35. (A) Fair wages

Fair wages represent a level of compensation that is higher than the minimum subsistence level but lower than the ideal living wage. This wage is determined by balancing the organization's financial capacity to pay with worker productivity and prevailing economic conditions. It serves as a practical intermediate standard that acknowledges the worker's contribution while remaining within the employer's sustainable economic limits.

36. (A) I, II, and III only

Long Service Awards are designed to honor the commitment, loyalty, and dedication of employees over time. Organizations typically recognize staff at specific milestones, such as 5, 10, or 15 years of continuous service. These awards are intended for employees at all levels of the organization to celebrate their tenure and are not exclusively reserved for top-level managerial executive roles.

37. (D) I, II, III, and IV

When a corporate strategy focuses on cost-cutting and efficiency, the compensation system must align accordingly. This involves analyzing competitor labor costs, emphasizing productivity, and increasing the proportion of variable pay. Additionally, the system focuses on tight control and specific work specifications to ensure operational excellence. These measures collectively help the organization maintain competitiveness by optimizing labor expenses and output.

38. (C) Chummary accommodation

In certain industries, particularly banking and finance, organizations provide shared temporary housing to help relocating managers settle into a new city. This specific facility is often referred to as chummary accommodation. It serves as a practical benefit that eases the transition during the initial period of a new assignment, ensuring that the manager can focus on their role without housing concerns.

39. (A) III, I, II, IV

The Indian government passed major labor enactments in a specific historical sequence to protect workers. The Payment of Wages Act was enacted in 1936, followed by the Minimum Wages Act in 1948. Later, the Payment of Bonus Act was passed in 1965. Finally, the Equal Remuneration Act was introduced in 1976 to ensure gender-neutral pay for equal work, completing this set.

40. (A) The variable part of the compensation is generally disclosed publicly among all employees to foster intense peer competition.

In most private sector organizations, variable compensation components are kept confidential and are not disclosed publicly among all employees. While these systems aim to motivate performance through financial rewards and require robust appraisal systems, companies typically prohibit employees from sharing their specific pay details. This confidentiality helps prevent potential resentment and maintains focus on individual performance goals.

41. (D) I, II, III, IV, and V

Indian labor laws provide a comprehensive framework for wage administration. These acts ensure timely wage payments, prohibit unauthorized deductions, and mandate minimum compensation levels to prevent exploitation. They also establish the principle of equal pay for men and women and provide for annual bonuses as deferred wages. Together, these legislative measures protect the economic interests and rights of the workforce.

42. (B) It involves an exchange of information regarding skills and performance used to drive continuous improvement.

An employee feedback system is a human resource process characterized by an exchange of information regarding individual skills and performance. Unlike top-down disciplinary channels, its primary purpose is to drive continuous improvement and development. By providing constructive insights, these systems help employees understand their strengths and areas for growth, ultimately enhancing both individual effectiveness and the organization's collective success.

- 43.** (A) To determine the dividend payout ratio for shareholders.

Job evaluation is focused on determining the relative worth of positions to establish fair compensation rates and pay differentials based on skills and effort. It ensures that pay is directly linked to the requirements of the job. Determining dividend payout ratios is a financial management function related to corporate profit distribution to shareholders and is entirely separate from job evaluation.

- 44.** (D) Neither I nor II is correct

Feedback systems operate on both formal and informal levels, but their methods are often distinct. Formal feedback typically involves structured tools like questionnaires, psychological instruments, and official suggestion schemes. Conversely, informal feedback is gathered through less structured means, such as day-to-day discussions with employee representatives and the direct observation of behavioral patterns within the work environment.

- 45.** (B) The job is broken down into specific compensatory factors before evaluation begins. The ranking method is a non-quantitative job evaluation technique where each job is compared as a whole against others. It is valued for being simple and inexpensive. However, unlike more complex quantitative methods like point rating, the ranking method does not break the job down into specific compensatory factors or sub-components before the evaluation and subsequent ranking process occur.

- 46.** (C) Standards — The perceived importance of implicit and explicit goals and performance standards.

In the context of climate surveys, the dimension of standards refers to the importance that employees perceive is placed on meeting performance goals and upholding excellence. Other dimensions like warmth describe the workgroup's atmosphere, while risk relates to the sense of challenge in the job. Correctly identifying these dimensions allows management to understand specific environmental factors influencing employee motivation and performance.

- 47.** (D) Executives and Semiskilled workers

Job grading systems categorize employees based on the complexity and responsibility of their roles. Class I typically includes high-level positions such as executives and senior managers who handle complex decision-making. In contrast, Class IV is generally reserved for semiskilled or entry-level positions, such as file clerks or office assistants, who perform more routine tasks. This structure helps maintain clear salary administration.

- 48.** (D) P-4, Q-3, R-1, S-2

In climate surveys, rewards pertain to perceptions of pay and promotion systems, while conflict describes the openness to different opinions. Identity refers to the sense of belonging and value within the organization. Responsibility measures the feeling of autonomy and the degree of individual discretion in performing tasks. These dimensions collectively provide a comprehensive view of how employees perceive the organizational environment, helping leaders identify cultural adjustments.

- 49.** (B) Rs. 54

Using the factor comparison method, the wage rate for a specific job is determined by totaling the assigned values for several compensable factors. For the toolmaker job, the calculation involves adding values for skill (5), mental requirements (10), physical requirements (12), working conditions (24), and responsibility (3). Summing these specific factor values results in a total wage rate of Rs. 54.

- 50.** (C) It is always desirable to keep survey results highly confidential to avoid employee confusion. For employee surveys to be effective, it is generally undesirable to keep the results highly confidential. Transparent communication of findings is crucial for building trust and demonstrating that management values employee input. Sharing the results and subsequent action plans ensures that the survey process is seen as a constructive tool for organizational improvement rather than a secretive administrative exercise.

- 51.** (A) 20 points for Impact, 100 points total

In the point method, factors are weighted and subdivided. Responsibility accounts for 30

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points of the total 100. It is split into Scope (10%) and Impact (20%), yielding 10 and 20 points respectively. Adding these 30 points from Responsibility to the 70 points from all other factors results in a total evaluation score of 100 points for the receptionist position.

- 52.** (D) Wages received as compensation for contributions made to the organisation. While intangible factors like recognition and culture are important for long-term engagement, the primary attraction for individuals joining or changing jobs remains the wages received. Compensation serves as the fundamental exchange for the employee's time, skills, and contributions. It provides the necessary financial security and motivation for individuals to offer their services to an organization in a competitive market.
- 53.** (D) Actual salary divided by the midpoint of the pay range, multiplied by 100. The compa-ratio is a standard formula used in compensation management to evaluate pay competitiveness. It is defined as an individual's actual salary divided by the midpoint of the established pay range for their position, then multiplied by 100 to express it as a percentage. This metric allows professionals to see how an employee's pay compares to the market-competitive rate.
- 54.** (C) Statutory Fines The total rewards framework consists of three main categories that influence employee decisions: pay, benefits, and intangible rewards. Pay includes direct compensation, benefits cover health and retirement programs, and intangible rewards include career development and work-life balance. Statutory fines are legal penalties for non-compliance and do not serve as a reward category intended to attract, perform, or retain staff.
- 55.** (B) P-4, Q-3, R-2, S-1 Compa-ratio zones help classify employee performance and experience. The 80-87% zone typically represents new or unsatisfactory incumbents, while 88-95% includes those gaining experience. The 96-103% zone is for fully competent performers at the market rate. Finally, the 112-120% zone is reserved

for outstanding performers who consistently exceed expectations and are paid near the top of the range.

- 56.** (D) I, II, III, IV, and V A comprehensive rewards system is built upon five essential pillars: compensation, benefits, flexibility, performance recognition, and career development. Each pillar addresses different aspects of the employee experience, from financial stability and health to professional growth and work-life balance. By integrating these five elements, organizations can create a robust value proposition that effectively attracts, motivates, and retains talent.
- 57.** (B) As someone gaining experience but not yet fully competent in the job. An employee with a compa-ratio of 91% falls into the second defined zone, typically spanning from 88% to 95%. In compensation management, individuals in this range are categorized as those who are still gaining the necessary experience and skills to perform the job fully. They are moving toward becoming fully competent performers but have not yet reached the midpoint competitive rate.
- 58.** (B) Talent Development provides tools for employees to advance their skills and long-term careers. Talent development is a core element of total rewards that focuses on providing employees with the tools and opportunities necessary to advance their skills and long-term careers. This includes training, mentoring, and career pathing. Unlike benefits or compensation, talent development emphasizes future growth and the organization's commitment to professional evolution, which is vital for long-term retention and engagement.
- 59.** (A) It recognizes varying skill levels and performance, motivating all employees. The fundamental reason for linking compensation to performance is to recognize and reward the varying skill levels and contributions of employees. By providing financial incentives for high achievement, organizations can motivate their workforce to excel. This approach ensures that rewards are distributed fairly based on individual or

group output, thereby encouraging a culture of meritocracy and continuous improvement.

60. (C) Work-Life Effectiveness

Policies that allow for hybrid working hours or flexible schedules are categorized under work-life effectiveness within the total rewards strategy. This element focuses on programs and practices that help employees achieve success both at work and in their personal lives. By supporting a healthy balance, organizations can improve employee satisfaction, reduce stress, and enhance the overall engagement and productivity of the workforce.

61. (B) Performance measurement is difficult and error-prone, which may lead to frustration.

In service industries, a totally variable compensation system faces the significant challenge of difficult and potentially error-prone performance measurement. Unlike manufacturing, where output is easily counted, service quality and outcomes can be subjective. Inaccurate measurements can lead to employee frustration and a perceived lack of fairness, which may ultimately undermine motivation and lead to a decline in service quality.

62. (D) I, II, and III

When developing a purpose statement for a reward program, organizations must answer three critical questions. They need to define why the program exists, why it is meaningful to the employees, and how it provides a competitive advantage to the organization. Addressing these questions ensures the reward system is strategically aligned with business goals and effectively communicates its value to the workforce.

63. (D) Companies offer 'cafeteria' options, allowing employees to allocate their own total package. A significant modern trend in private sector compensation is the implementation of cafeteria-style plans. These allow employees to customize their own total reward package by allocating a fixed sum across different benefits and allowances. This flexibility caters to diverse individual needs and life stages, making the compensation package more attractive and relevant while allowing the company to manage costs effectively.

64. (D) Google

Google is well-known for a total rewards philosophy that focuses on attracting top talent through innovation and alignment with stockholder interests. They prioritize creating a fun, energizing work environment and offering compelling job opportunities. This approach moves beyond traditional pay to include unique perks and a culture that encourages creativity, which is essential for maintaining their position as a tech leader.

65. (B) II, I, IV, III

The process for designing a compensation structure follows a logical sequence. It begins with creating complete job descriptions. Next, job evaluation points are calculated based on those descriptions. The data is then reviewed to identify and handle outliers. Finally, a simple regression analysis is conducted to establish a market pay line, ensuring the structure is internally and externally consistent.

66. (B) I, III, and IV

The STARS system in hospitality links customer delight directly to employee rewards. Employees accumulate points from diverse sources, including guests, colleagues, and their own suggestions. Crucially, the timing of this recognition is often considered more impactful than the reward itself. Recognition in this system is not restricted to top management but is designed to be a broad appreciation mechanism.

67. (A) The Sastry Award and the Desai Award

In the evolution of salary determination for Indian banks, the Sastry Award and the Desai Award provided early legal frameworks. These awards were the result of adjudications by third-party tribunals that heard arguments from both bank managements and unions. They established foundational principles for wage structures and service conditions, paving the way for the modern bipartite settlement system today.

68. (D) P-3, Q-1, R-4, S-2

Different job classifications often use specific terminology for compensation. Managerial roles are frequently associated with the term remuneration, while supervisory and

administrative roles typically use the term salary. Unskilled and skilled labor positions are generally referred to in terms of wages. These distinctions reflect historical and practical differences in how different types of work are categorized and paid within organizations.

- 69.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Since 1966, wages for workman staff in the Indian banking sector have been settled through Bipartite Settlements. This process is characterized by direct negotiations between the Indian Banks' Association, representing bank managements, and various central trade unions, representing the workmen. This collaborative approach ensures that wage agreements are mutually agreed upon, fostering industrial peace and standardized service conditions.

- 70.** (A) I, II, and IV only

Internal factors influencing compensation levels are those within the organization's control. These include the company's capacity to pay, the bargaining power of its internal unions, and the use of compensation as a motivational factor for employees. External factors like national labour laws and the recommendations of government-appointed pay commissions generally apply across the wider economy rather than being unique.

- 71.** (C) 10 days

Under the standard Performance Linked Incentive (PLI) matrix for public sector banks, the incentive amount is determined by the bank's year-on-year growth in operating profit, provided a net profit is recorded. For a growth rate between 10% and 15%, the matrix specifies a payout of 10 days of salary, which includes basic pay plus dearness allowance, annually.

- 72.** (A) Compensation surveys — Internal factor
Compensation surveys are classified as an external factor because they involve gathering data about pay rates and trends from other organizations in the labor market. These surveys help a company ensure its pay remains competitive externally. In contrast, internal factors include things like the company's specific financial capacity, the bargaining power

of its own unions, and its internal motivational strategies.

- 73.** (A) Values-based Platform — Platform for informal recognition from co-workers through online e-cards.

The description of a platform for informal recognition through online e-cards from co-workers correctly belongs to a Peer Appreciation or Peer-to-Peer system. A Values-based Excellence platform, however, is specifically designed to reward employees who model the organization's core values. While both use digital tools, their primary objectives—one for social appreciation and the other for core value alignment—are distinct.

- 74.** (B) Fair wages

Fair wages are conceptualized as an intermediate level of compensation between the minimum wage and the living wage. This level is determined by considering the organization's financial capacity to pay and the productivity of the workers. It aims to provide more than just bare subsistence while remaining a practical goal that organizations can sustain within the current economic and competitive landscape.

- 75.** (A) To reward employees for exhibiting the right behaviors and exemplifying the organisation's core values.

A Values-based Excellence reward program is designed to reinforce the organization's culture by recognizing employees who model its core values. By rewarding individuals for exhibiting the right behaviors, the program encourages all staff to align their work practices with the company's ethical standards. This type of recognition helps build a cohesive environment where shared values drive collective performance and success.

- 76.** (C) Strategy: Innovative → HR program: Committed to agile, risk taking, innovative people.

For an organization pursuing an innovative corporate strategy, the HR programs must be committed to attracting and developing agile, risk-taking, and innovative people. This alignment ensures that the workforce is capable of generating and implementing new ideas. A corresponding compensation system for this

Oct/Nov 2007

20. Consider the following behavior indicators of the competency 'adaptability':

- I. Looks for ways to make changes work rather than only identifying why change will not work.
- II. Adapts to change quickly and easily.
- III. Makes suggestions for increasing the effectiveness of changes.
- IV. Shows willingness to learn new methods, procedures, or techniques.
- V. Shifts strategy or approach in response to the demands of a situation.

Which of the following combinations is correct?

- (A) I, II, III, and IV only
- (B) II, III, IV, and V only
- (C) I, III, IV, and V only
- (D) I, II, III, IV, and V

May/June 2019

21. Which of the following statements incorrectly differentiates 'Competence' and 'Competency'?
- (A) Competence focuses on the results or outcomes.
 - (B) Competency focuses on the person's behaviour and attitudes.
 - (C) Competency is easily transferable from one person to another.
 - (D) Competence is easily transferable from one person to another.

Oct/Nov 2025

22. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):

Assertion (A): 720-Degree Performance Appraisal is considered an "all-round" appraisal, which is basically a 360-Degree Appraisal performed twice.

Reason (R): Under this system, the employee's performance is measured, targets are set, and after a short period, performance is measured again with proper feedback to ensure the employee achieves the target.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.

- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

23. Which of the following is NOT one of the chronological steps in the evaluation process of performance appraisal?
- (A) Setting the performance standards in advance.
 - (B) Administering a psychometric test to external job applicants.
 - (C) Communicating the performance standards to the employees.
 - (D) Discussing the outcome with the employee, emphasising strong points and counselling on weak points.

Oct/Nov 2018

24. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):

Assertion (A): Basing promotion decisions only on a performance appraisal system is a judgmental prediction that the employee may perform well in a higher capacity.

Reason (R): The attributes and skills required for the higher position may be totally different than those required in performing the present job.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

25. The Behavioural Event Interview (BEI) utilises a specific technique to gather data so that a complete idea is gathered. Which of the following is NOT a component of this technique?
- (A) Reiteration
 - (B) Situation
 - (C) Task
 - (D) Action

CHAPTER 14

Performance Management

May/June 2020

1. Despite the sophisticated design of a new 720-Degree system, the HR department warns that line managers must implement it with openness. If the system is poorly implemented and lacks transparency, what is the most likely consequence?
 - (A) The employees will appreciate the system due to its structural complexity alone.
 - (B) The system will lose credibility as employees will find it has become a mere ritual.
 - (C) The bank's human asset value will automatically increase due to the 'key causal' variables.
 - (D) It will spontaneously transition into an Assessment Centre method.

Oct/Nov 2012

2. Which of the following is an incorrectly matched pair regarding the Do's and Don'ts of giving feedback?
 - (A) Do's — Use clear and actionable language.
 - (B) Do's — Praise him for his achievements.
 - (C) Don'ts — Ask him what kind of help he expects from you.
 - (D) Don'ts — Adopt judgmental role without providing the reasoning or supporting evidence behind it.

May/June 2024

3. How is competency defined by Spencer and Spencer (1993)?
 - (A) An underlying individual characteristic related to effective or superior job performance.
 - (B) A cluster of knowledge, skills, and attitude that correlates with performance on the job.
 - (C) The process of identifying key competencies for a particular position in an organisation.
 - (D) A standard expected of employees on entry into a role that must be learned or trained.

Oct/Nov 2005

4. Consider the following statements regarding performance appraisal systems:
 - I. The modern performance appraisal systems involve employees in goal setting, provide for self-appraisal, and regular feedback.
 - II. The traditional confidential report system provides regular and transparent feedback to the employee for developmental consideration.Which of the above statement(s) is/are correct?
 - (A) Only I
 - (B) Only II
 - (C) Both I and II
 - (D) Neither I nor II

May/June 2009

5. In the context of performance review, how is counselling defined?
 - (A) An interview technique based on the assumption that the best predictor of future behaviour is past behaviour.
 - (B) A systematic evaluation of personnel by supervisors that excludes any long-term developmental consideration.
 - (C) An interactive nature of business games that provides opportunities to assess dimensions such as planning.
 - (D) Using specific skills to help individuals manage their own work and behaviour-related decision-making.

Oct/Nov 2023

6. Consider the following statements regarding the limitations of Behavioural Event Interview (BEI):
 - I. It relies heavily on the recall of the respondent, which can result in self-serving, biased information.
 - II. The interviews are always considered the most adequate sources for determining the specialised knowledge needed by managers to perform their functions.

NODIA

Which of the above statement(s) is/are correct?

- (A) Only I
- (B) Only II
- (C) Both I and II
- (D) Neither I nor II

May/June 2017

7. Developing Behaviourally Anchored Rating Scales (BARS) typically requires how many steps?
- (A) Three steps
 - (B) Seven steps
 - (C) Four steps
 - (D) Five steps

Oct/Nov 2011

8. Consider the following statements regarding Management By Objectives (MBO):
- I. It is a system which concentrates on results and not on the process.
 - II. It creates an atmosphere of collaboration completely eliminating unhealthy competition.
 - III. Very soft targets are sometimes set to show higher performance achievement.
- Which of the following combinations correctly identifies the disadvantages of MBO?
- (A) I and II only
 - (B) I and III only
 - (C) II and III only
 - (D) I, II, and III

May/June 2005

9. In the Human Asset Accounting Method, the current value of the human asset is appraised by undertaking periodic measurements of which two variables?
- (A) Key causal and Intervening enterprise variables
 - (B) Direct and Indirect organisational variables
 - (C) Financial and Non-financial asset variables
 - (D) Short-term and Long-term performance variables

Oct/Nov 2016

10. Consider the following statements regarding the uses of a Performance Appraisal system:
- I. It provides information critical for decisions on promotion, pay increases, and transfers.

II. It rates all the employees in a unified manner by using the same rating scales, making them comparable on a common footing.

III. It guarantees immediate financial reward without the need for corrective steps.

Which of the following combinations is correct?

- (A) I and II only
- (B) I and III only
- (C) II and III only
- (D) I, II, and III

May/June 2013

11. Under the Human Asset Accounting Method, what does the 'intervening enterprise' variable include?
- (A) Loyalty, attitudes, motivation level, and effective interaction
 - (B) Management policies, strategies, and high-level leadership skills
 - (C) Financial goodwill and the valuation of various fixed assets
 - (D) Salary increments and historical promotional track record data

Oct/Nov 2021

12. Consider the following statements regarding the objectives of a performance appraisal system:
- I. To enable the organisation to maintain an inventory of the quality and skills of people.
 - II. To motivate high-performing employees.
 - III. To counsel employees who aren't meeting company standards.
 - IV. To determine the performance-linked increments.

Which of the following combinations correctly represents the specific objectives?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, III, and IV

May/June 2022

13. How is the goal-setting process conceptually structured in Management By Objectives (MBO)?
- (A) Goals are set unilaterally by the top management and imposed on the subordinates.
 - (B) A joint process where short-term goals

are set collaboratively by employees and superiors.

- (C) Goals are established through an informal, unstructured essay written by the appraisee.
- (D) Goals are determined solely by external assessors during an assessment centre workshop.

Oct/Nov 2008

14. Consider the following strategies to manage average performers to turn them into a productive workforce:

- I. Understand how they define Success.
- II. Find out how they think while at Work.
- III. Assess skills and change job-role if need be.
- IV. Show Appreciation.

Which of the following combinations is correct?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, II, and IV only
- (D) I, II, III, and IV

May/June 2010

15. Which of the following statements correctly identifies a crucial point for giving feedback during an appraisal?

- (A) The superior should adopt a fault-finding approach to ensure mistakes are never repeated.
- (B) The superior should arrange the meeting when they are unable to devote time undisturbed to keep it brief.
- (C) The feedback must involve criticising the appraisee for their failures without appreciating their achievements.
- (D) Feedback should be suggestive, focusing on training and the developmental needs of the individual.

Oct/Nov 2019

16. Consider the following practices regarding the role of Assessors in Assessment Centres for objective assessment:

- I. Observing behaviour.
- II. Recording accurately.
- III. Reporting clearly.
- IV. Suspending judgment.

Which of the following combinations is correct?

- (A) I, II, and III only
- (B) I, III, and IV only

- (C) II, III, and IV only
- (D) I, II, III, and IV

May/June 2015

17. Which statement correctly describes the Behavioural Event Interview (BEI) technique?

- (A) BEI asks hypothetical future scenario questions to test the candidate's imagination.
- (B) BEI is based on the premise that the best predictor of future behaviour is past behaviour.
- (C) BEI accepts what people say about their motives as the most credible source of data.
- (D) BEI is primarily an unstructured discussion without any specific steps or sequences to follow.

Oct/Nov 2014

18. Consider the following attributes appraised in a Potential Appraisal Report:

- I. Functional Knowledge
- II. Managing Skills
- III. Flexibility
- IV. Self-Managing Skills
- V. Innovation

Which of the following combinations is correct?

- (A) I, II, III, and IV only
- (B) II, III, IV, and V only
- (C) I, III, IV, and V only
- (D) I, II, III, IV, and V

May/June 2025

19. Identify the incorrect statement regarding the drawbacks of various appraisal systems.

- (A) Forced Choice Description effectively eliminates all biases by allowing the superior to freely draft descriptions.
- (B) Straight ranking suffers from the drawback that it is difficult to compare an individual with others having varying behaviour traits.
- (C) The Graphic Rating method assumes each character to be equally important for all jobs.
- (D) The Assessment Centre is a time-consuming activity and good performers are often averse to the idea of exam-taking.

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strategy would typically reward innovation and creative problem-solving rather than focusing solely on rigid control.

are fairly compensated for their labor and maintain financial stability.

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77. (A) I, II, III, and IV only

Modern employee well-being packages include a variety of supportive benefits. These encompass industry-benchmarked compensation, comprehensive medical assistance, and temporary accommodation for relocation. Additionally, organizations often provide emergency loans to help employees manage unexpected financial burdens such as illness or family emergencies. Mandatory wage deductions are a regulatory requirement and are not considered a voluntary benefit provided by the employer.

78. (C) Linking job value to customer contact and implementing satisfaction-based incentives.

When an organization shifts to a customer-focused strategy, its compensation system must support client delight. This involves linking job values to the level of customer contact and implementing incentive programs based on customer satisfaction metrics. By rewarding employees for exceeding client expectations, the organization motivates the behaviors necessary to achieve its strategic goal of market differentiation through superior service.

79. (D) Provision of emergency loans.

To support employees during unexpected crises, many organizations include a provision for emergency loans as part of their well-being policies. These loans are specifically designed to provide immediate financial relief during contingencies like severe medical emergencies involving family members. This benefit goes beyond standard insurance coverage, demonstrating the organization's commitment to its employees' welfare during difficult personal times without base salary changes.

80. (D) The Payment of Wages Act, 1936

The Payment of Wages Act, 1936, is a key piece of Indian labor legislation that ensures workers receive their wages regularly and on time. It also protects employees by preventing employers from making arbitrary fines or unauthorized deductions from their earnings. By establishing these protections, the Act ensures that workers

Oct/Nov 2024

- 26.** Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):
 Assertion (A): In the Behavioural Event Interview (BEI) method, what people think or say about their motives or skills is considered highly credible for competency assessment.
 Reason (R): The purpose of the BEI method is to get behind what people say they do to find out what they really do by asking them to describe how they actually behaved in specific incidents.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 (C) Assertion (A) is true, but Reason (R) is false.
 (D) Assertion (A) is false, but Reason (R) is true.

May/June 2021

- 27.** Which of the following best explains why the Straight Ranking Method suffers from numerous drawbacks?
- (A) It is difficult to compare an individual with others having varying behaviour traits.
 (B) It is excessively objective and ignores the personal traits of the individual.
 (C) It requires a panel of external psychologists to administer the ranking system.
 (D) It heavily relies on complex mathematical formulas to derive the final score.

Oct/Nov 2010

- 28.** During his observation, Mr. Sharma identifies an average-performing employee who always meets his daily quotas but feels resentful because only the top performers receive recognition. To address this, Mr. Sharma publicly praises him for his consistency. Which strategy is Mr. Sharma utilizing?
- (A) Assess skills and change job-role if need be
 (B) Set high expectations
 (C) Show Appreciation
 (D) Maintain the status quo

May/June 2012

- 29.** What is considered the most critical aspect of Planning an Assessment Centre?
- (A) Booking a prestigious venue for the administration of various exercises.
 (B) Preparing a list of Critical Competencies based on the specific purpose and position.
 (C) Ensuring that the business games remain unstructured to capture raw candidate reactions.
 (D) Selecting candidates solely through the Free Form Essay Method prior to the centre.

Oct/Nov 2022

- 30.** The HR Head of a public sector bank is planning an Assessment Centre for selecting candidates for the 'Zonal Manager' role. To assess their strategic planning and teamwork, candidates are grouped together and asked to interactively run a simulated mock manufacturing operation. Which tool is the HR using?
- (A) In-basket Exercise
 (B) Role Play
 (C) Business Games and Interactive Simulation Exercises
 (D) Case Study

May/June 2014

- 31.** What is the prime purpose of the counselling process during performance review?
- (A) To formally dismiss an employee who is not meeting company standards.
 (B) To adjust the performance benchmarks downward to accommodate poor performers.
 (C) To evaluate the personal life of the employee and resolve their domestic disputes.
 (D) To provide performance feedback and help employees understand areas for improvement.

Oct/Nov 2009

- 32.** To ensure fairness in an Assessment Centre, the HR Head implements a rule that judgments resulting in an outcome must be based on discussion among multiple assessors, and wide variations in evaluation must be sorted out. Which essential element of Assessment Centres is being fulfilled?

ANSWERS

1. (B) The system will lose credibility as employees will find it has become a mere ritual.
Success in modern performance appraisal systems depends heavily on the openness and transparency with which they are executed. If line managers implement complex systems like the 720-degree appraisal as a superficial requirement rather than a meaningful developmental tool, employees will quickly perceive it as a meaningless ritual, leading to a total loss of organizational credibility.
2. (C) Don'ts — Ask him what kind of help he expects from you.
Asking a subordinate about the specific help they need is actually a positive “Do” in feedback sessions. This supportive approach fosters collaboration and professional growth. Conversely, acting judgmentally without providing evidence or failing to praise achievements are considered “Don'ts” because they hinder development and damage the working relationship between the supervisor and the employee.
3. (A) An underlying individual characteristic related to effective or superior job performance.
Spencer and Spencer define competency as a fundamental characteristic of an individual that is causally related to criterion-referenced effective or superior performance in a job or situation. This definition emphasizes that competencies are deep-seated parts of a person's personality and can predict behavior in a wide variety of situations and job-related tasks.
4. (A) Only I
Modern appraisal systems are characterized by active employee participation, joint goal setting, and transparent feedback mechanisms aimed at development. In contrast, the traditional confidential report system was notoriously opaque and top-down. It did not provide regular feedback to employees, making the second statement incorrect as it misrepresents the secretive nature of traditional performance evaluation methods.
5. (D) Using specific skills to help individuals manage their own work and behaviour-related decision-making.
Performance counselling is a specialized interaction where a supervisor uses interpersonal skills to assist subordinates in analyzing their performance and behavior. The objective is to empower the individual to make informed decisions regarding their work life and professional growth. It focuses on facilitating self-reflection and personal development rather than simply evaluating past performance or issuing commands.
6. (A) Only I
The Behavioural Event Interview relies on a respondent's ability to accurately recall and describe past incidents. This dependency makes the technique susceptible to self-serving biases and memory distortions, as individuals may selectively report events that portray them in a favorable light. While useful, it is not always considered the most adequate source for determining all specialized technical knowledge.
7. (B) Seven steps
Developing Behaviourally Anchored Rating Scales is a rigorous process typically involving seven distinct stages. These include generating critical incidents, developing performance dimensions, reallocating incidents, scaling the incidents, developing a final instrument, and training raters. This multi-step approach is designed to reduce the subjectivity and bias often found in traditional appraisal methods by providing concrete behavioral examples for evaluation.
8. (B) I and III only
Management By Objectives can suffer from several drawbacks, such as a narrow focus on end results while ignoring the quality of the process used to achieve them. Additionally, it can lead to the setting of “soft” or easily attainable targets to artificially inflate performance records. While it aims for collaboration, it does

Oct/Nov 2013

38. To generate the list of competencies for a unique role, the HR conducts Behavioural Event Interviews (BEI) with their current outstanding performers as well as average performers. Which method of Competency Mapping does this represent?
- (A) Job-focused Approach
 - (B) Free Form Essay Approach
 - (C) Post Performance-based Approach
 - (D) Forced Choice Description Method

May/June 2011

39. Which of the following pairs is a correct pair of a Modern Appraisal Method and its core feature?
- (A) Free Form Essay Method — Describes jobs through illustrations or giving critical incidents.
 - (B) Management By Objectives (MBO) — Minimises external controls and emphasises joint goal setting.
 - (C) Human Asset Accounting Method — Evaluates performance in terms of critical employee behaviours based on incidents.
 - (D) Grading Method — Treats employees as Human Capital and attaches money estimates to their value.

Oct/Nov 2020

40. A bank replaces its Confidential Report with a 720-Degree Appraisal method. How does this new method fundamentally operate?
- (A) Incorporating two rounds of feedback at a timely interval to ensure targets are achieved.
 - (B) It involves an appraisal conducted solely by external investors to provide a distinct perspective.
 - (C) It attaches monetary estimates to the value of an organisation's personnel.
 - (D) It limits the appraisal strictly to the employee's immediate superior without any self-assessment.

May/June 2016

41. Which of the following pairs is incorrectly matched regarding differences between 'Competence' and 'Competency'?
- (A) Competence — It focuses on the person's behaviour and attitudes.
 - (B) Competency — It is assessed in terms of

behaviours and attitudes.

- (C) Competency — It is people-oriented.
- (D) Competence — It describes the features of work and tasks as also the job outputs.

Oct/Nov 2006

42. According to Heyel, how is performance appraisal defined?
- (A) A process of measuring human assets by undertaking periodic measurements of causal variables.
 - (B) A process of evaluating employee performance and qualifications against specific job requirements.
 - (C) A haphazard and unsystematic method of checking development opportunities for top management.
 - (D) A method that minimises external controls and emphasises motivation through joint goal setting.

Oct/Nov 2012

43. Consider the following statements regarding the 720-Degree Appraisal method:
- I. It is basically a 360-Degree Appraisal performed twice, serving as a double check.
 - II. The second 360-Degree is performed at a timely interval and compared against the results of the first to ensure the person is able to achieve the set goals.
- Which of the above statement(s) is/are correct?
- (A) Only I
 - (B) Only II
 - (C) Both I and II
 - (D) Neither I nor II

May/June 2024

44. What is the definition of a 720-Degree Appraisal?
- (A) An appraisal system where the employee is rated exclusively by external stakeholders and investors.
 - (B) A system that measures human performance of an organisation in terms of changes in asset value.
 - (C) A 360-degree appraisal conducted twice, measuring performance and targets after a timely interval.
 - (D) A highly unstructured method of appraisal giving absolute freedom to the superior to write about the job.

May/June 2015

58. Which of the following statements is incorrect regarding performance appraisal methods?
- (A) Modern methods include Assessment Centre Workshops and Management By Objectives (MBO).
 - (B) Traditional methods lay importance on the results and job achievement rather than on personality.
 - (C) The Free Form Essay Method could lead to a totally subjective evaluation.
 - (D) The Comparison Method is a modification of the Straight Ranking Method.

Oct/Nov 2014

59. Consider the following tools typically used in Assessment Centres:
- I. Group Discussion (GD)
 - II. Psychometric Tests
 - III. In-tray or In-basket Exercise
 - IV. Case Studies/Case Analysis Exercise
 - V. Role Play
- Which of the following combinations is correct?
- (A) I, II, III, and IV only
 - (B) II, III, IV, and V only
 - (C) I, III, IV, and V only
 - (D) I, II, III, IV, and V

May/June 2025

60. Which of the following statements about managing average performers is incorrect?
- (A) An organisation should try various means to improve their performance, including job rotation and training interventions.
 - (B) The strategy to "Assess skills and change job-role if need be" can spur average performers to new heights.
 - (C) Organisations in Indian culture typically take the drastic step of removing people just because they are average performers.
 - (D) Moving the bar and setting expectations just a little bit higher every time forces average employees to hurdle it.

Oct/Nov 2007

61. Consider the following elements of the Assessment Centre standard:
- I. Multiple Assessment Technique
 - II. Multiple Assessors
 - III. Pooling of information
 - IV. Time of Observation (assessment made at a separate time from observation)

V. Design of Exercises ensuring reliability and validity

Which of the following combinations correctly identifies the Essential Elements?

- (A) I, II, III, and V only
- (B) I, III, IV, and V only
- (C) II, III, IV, and V only
- (D) I, II, III, IV, and V

May/June 2019

62. Which of the following is NOT listed as a Traditional Method of performance appraisal?
- (A) Straight Ranking Method
 - (B) Graphic Rating Scale
 - (C) Human Asset Accounting Method
 - (D) Group Appraisal Method

Oct/Nov 2025

63. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):
- Assertion (A): The drawback of the Assessment Centre is that it is a time-consuming activity.
- Reason (R): Good performers are always eager to take exams to prove their merit, demanding extensive assessment modules.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

64. Which of the following is NOT identified as a common error in Performance Appraisals?
- (A) Halo Effect
 - (B) Central Tendency
 - (C) Spillover Effect
 - (D) Structural Dependency

Oct/Nov 2018

65. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):
- Assertion (A): Management By Objectives (MBO) may create a conflicting situation when it comes to goal-setting.

May/June 2013

52. What is the fundamental concept behind Potential Appraisal?
- (A) Evaluating the employee's past performance against set financial targets to decide annual increments.
 - (B) Comparing an employee's output with that of their peers using a forced distribution curve.
 - (C) Generating a confidential report without providing any feedback to the employee regarding their weaknesses.
 - (D) Predicting an employee's attributes and skills required to perform effectively in a higher capacity.

Oct/Nov 2021

53. Consider the following steps involved in the Planning of an Assessment Centre:
- I. Identify and clearly state the purpose for conducting an assessment centre.
 - II. Identify and state the position for which the Assessment Centre is to be conducted.
 - III. Prepare the list of Critical Competencies to be assessed.
 - IV. Skip the validation of off-the-shelf tools to expedite the process.
- Which of the following combinations represents the correct steps?
- (A) I, II, and III only
 - (B) I, III, and IV only
 - (C) II, III, and IV only
 - (D) I, II, III, and IV

May/June 2022

54. Which of the following is a correct statement regarding the Management By Objectives (MBO) method?
- (A) MBO is a process that relies heavily on strict external controls and ignores the motivation levels of employees.
 - (B) The objective of MBO is to concentrate on the method involved rather than goal achievement.
 - (C) MBO is a system which concentrates on results and not on the process, and may create a conflicting situation when it comes to goal-setting.
 - (D) MBO ensures that performance goals are kept vague and unmeasurable to avoid stressing the employees.

Oct/Nov 2008

55. Consider the following statements regarding the layers of competency mapping in an organisation:
- I. Company Level mapping involves Values and Core Competencies.
 - II. Function Level covers generic competencies for a specific function such as HR or Finance.
 - III. Job Level competencies are generally linked to Generic Job Roles.
 - IV. Position Level maps a very specific set of competencies to a unique position.
- Which of the following combinations is correct?
- (A) I, II, and III only
 - (B) II, III, and IV only
 - (C) I, III, and IV only
 - (D) I, II, III, and IV

May/June 2010

56. Which of the following statements correctly reflects the 'Pooling of Information' element in designing an Assessment Centre?
- (A) Judgments must be based on pooled information from assessors, sorting out variations through discussion.
 - (B) Judgments resulting in an outcome must be based on a single assessor's isolated observation to prevent bias.
 - (C) Assessors are strictly prohibited from discussing their evaluations with other assessors.
 - (D) Information pooling must be done exclusively by HR officials without the involvement of external assessors.

Oct/Nov 2019

57. Consider the following steps involved in a Behavioural Event Interview (BEI) conducted for Job Competency Assessment:
- I. Introduction and Explanation
 - II. Job Description (Roles & Responsibilities and Accountabilities)
 - III. Behavioural Events
 - IV. Characteristics Needed to do the Jobs
 - V. Conclusion and Summary
- Which of the following combinations is correct?
- (A) I, II, III, and IV only
 - (B) II, III, IV, and V only
 - (C) I, III, IV, and V only
 - (D) I, II, III, IV, and V

- (A) Multiple Assessment Technique
- (B) Multiple Assessors
- (C) Time of Observation
- (D) Pooling of information

May/June 2023

- 33.** Identify the correct chronological sequence of the following steps in a Behavioural Event Interview (BEI):
- I. Behavioural Events
 - II. Introduction and Explanation
 - III. Conclusion and Summary
 - IV. Characteristics Needed to do the Jobs
 - V. Job Description (Roles & Responsibilities)
- (A) II, V, I, IV, III
 - (B) V, II, I, IV, III
 - (C) II, I, V, IV, III
 - (D) I, V, II, III, IV

Oct/Nov 2015

- 34.** During the appraisal interview, Ms. Gupta needs to provide feedback regarding the subordinate's recent project failure. Which approach is recommended for giving this feedback effectively?
- (A) Adopting a fault-finding approach and using highly charged negative language.
 - (B) Focusing solely on criticising his failures to ensure he understands the severity.
 - (C) Being suggestive in nature and focusing on the developmental needs of the employee.
 - (D) Taking a decisive stand against the employee without providing any specific reasoning.

May/June 2018

- 35.** Match the Traditional Methods of performance appraisal listed in List I with their descriptions provided in List II:
- List I: (Traditional Methods)
- P. Free Form Essay Method
 - Q. Straight Ranking Method
 - R. Comparison Method
 - S. Graphic Rating Scale
- List II: (Descriptions)
- 1. The oldest and simple method where relative position of each employee is assessed in order of merit.
 - 2. Weightages are assigned to both quality and quantity, with rating on a continuous scale.
 - 3. Each employee is compared on certain

selected factors; paired comparison is used for large numbers.

4. Totally unstructured, open-ended appraisal giving absolute freedom to the superior.

- (A) P-4, Q-1, R-3, S-2
- (B) P-1, Q-4, R-2, S-3
- (C) P-4, Q-3, R-1, S-2
- (D) P-3, Q-2, R-4, S-1

Oct/Nov 2017

- 36.** A private bank is transitioning from a traditional Graphic Rating Scale to Behaviourally Anchored Rating Scales (BARS) to reduce subjectivity. What is the mandatory first step the HR department must take to develop BARS?
- (A) Convert job behaviours into a set of performance dimensions.
 - (B) Have job experts evaluate the dimensions keeping in view the job description.
 - (C) Use a subset of incidents as behavioural anchors.
 - (D) Identify effective and ineffective job behaviours used to describe performance measures.

May/June 2007

- 37.** Match the Competency Mapping approaches and concepts listed in List I with their details provided in List II:

List I: (Mapping Approaches)

- P. Post Performance-based Approach
- Q. Job-focused Approach
- R. Competency Dictionary
- S. Competency Description

List II: (Details)

- 1. Makes use of position information questionnaire as the central point.
 - 2. A list of competencies including their definition along with behavior indicators.
 - 3. An adaptation of critical incident interview technique using BEI.
 - 4. Contains all or most of the general competencies needed to cover all job families.
- (A) P-1, Q-3, R-2, S-4
 - (B) P-3, Q-1, R-4, S-2
 - (C) P-4, Q-2, R-1, S-3
 - (D) P-3, Q-4, R-1, S-2

Reason (R): MBO is a process of setting goals, exchanging feedback, and seeking participation of employees.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

66. Which of the following is NOT a stated purpose of an Assessment Centre?
- (A) To measure the potential of the candidate for higher managerial position
 - (B) To assess training and development needs
 - (C) To immediately sanction annual financial bonuses
 - (D) To select candidates in campus recruitment or fresh students for employment

Oct/Nov 2024

67. Mr. Sharma, a branch manager, notices a few employees who are highly loyal and never miss a day of work, yet their performance remains strictly average. He decides to engage with them to observe their outside interests and learn what sparks their enthusiasm. Which specific strategy is Mr. Sharma applying?
- (A) Understand how they define Success
 - (B) Find out how they think while at Work
 - (C) Assess skills and change job-role if need be
 - (D) Set high expectations

May/June 2021

68. Which of the following is the most appropriate description of the 'Halo Effect' in performance appraisals?
- (A) The tendency of the superior to interfere with the appraisal by being strictly lenient.
 - (B) Assigning average ratings to all the employees without properly evaluating each aspect.
 - (C) Comparing the employee with oneself on various traits and parameters.
 - (D) Allowing one trait to influence the assessment to rate an employee consistently high or low.

Oct/Nov 2010

69. Mr. Sharma concludes that another average performer possesses excellent skills that are not being utilized in his current role. He decides to move this employee to a different department laterally. What strategy is being executed?
- (A) Find out how they think while at work
 - (B) Understand how they define Success
 - (C) Show Appreciation
 - (D) Assess skills and change job-role if need be

May/June 2012

70. During an appraisal interview, what is the most appropriate role the appraiser should adopt?
- (A) A judgmental role where the appraiser dictates terms and limits the employee's speaking time.
 - (B) An authoritarian role focused on fault-finding.
 - (C) A listener who allows the employee to speak and acts as an encouraging senior colleague.
 - (D) A detached observer who avoids interacting directly with the appraisee.

Oct/Nov 2022

71. As the HR Head designs the Assessment Centre for a Zonal Manager role, what is considered the most critical aspect of the planning process according to the design guidelines?
- (A) Arranging the physical sitting layout for the candidates.
 - (B) Preparing a list of Critical Competencies based on the specific purpose and position.
 - (C) Choosing the most inexpensive psychometric tests available off the shelf.
 - (D) Ensuring the assessment is completed in under one hour per candidate.

May/June 2014

72. Identify the correct chronological order of the following steps in the Performance Appraisal Process:
- I. Measure the performance.
 - II. Discuss the outcome with the employee.
 - III. Set the 'performance standards' in advance.
 - IV. Compare performance level with the benchmark.
 - V. Initiate corrective measures and decide on

Oct/Nov 2005

45. Consider the following statements regarding Behaviourally Anchored Rating Scales (BARS):

- I. BARS evaluates the performance in terms of critical employee behaviours by using a set of incidents as 'behaviour anchors'.
- II. Developing BARS is a simple and rapid process that bypasses the need to identify effective and ineffective job behaviours.

Which of the above statement(s) is/are correct?

- (A) Only I
- (B) Only II
- (C) Both I and II
- (D) Neither I nor II

May/June 2009

46. The classical model for assessment centre design and practice in the USA, Britain, and elsewhere was operationally taken up in 1958 by which entity?

- (A) The British War Office Selection Board
- (B) The Office of Strategic Services (OSS)
- (C) The Bell System
- (D) The German Military

Oct/Nov 2023

47. Consider the following statements from the list of Do's and Don'ts of an appraisal interview:

- I. Praise him for his achievements.
- II. Use vaguely charged language to avoid direct confrontation.
- III. Extend to him all that you can do for him.

Which of the following combinations represents the 'Do's'?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

May/June 2017

48. According to McGregor, performance appraisal plans meet three needs. Which of the following correctly identifies these three needs?

- (A) Placement, Increment, and Termination
- (B) Financial, Psychological, and Social
- (C) Operational, Strategic, and Tactical
- (D) Judgmental, Developmental, and Counselling by the superior

Oct/Nov 2011

49. Consider the following statements regarding performance appraisal systems:

- I. Discriminate between high and low performers.
- II. Promote the halo effect to enhance top employees' potential.
- III. Provide timely feedback.

Which of the following combinations represents the characteristics of a Good Performance Appraisal System?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

May/June 2005

50. A review of literature suggests that 'competency' and 'competence' are two distinct approaches. Which of the following correctly captures their core difference?

- (A) Competency is a task-oriented functional approach, whereas competence is a person-oriented behavioural approach.
- (B) Both competency and competence are strictly task-oriented approaches used interchangeably.
- (C) Competency is a person-oriented behavioural approach, whereas competence is a task-oriented functional approach.
- (D) Competency relates only to financial parameters, whereas competence relates only to HR parameters.

Oct/Nov 2016

51. Consider the following statements regarding the differences between 'Competence' and 'Competency':

- I. Competence focuses on results or outcomes.
- II. Competency focuses on the person's behaviour and attitudes.
- III. Competence is task-oriented while competency is people-oriented.

Which of the following combinations is correct?

- (A) I and II only
- (B) I and III only
- (C) II and III only
- (D) I, II, and III

May/June 2007

- 78.** Match the layers of Competency mapping listed in List I with their characteristics provided in List II:

List I: (Mapping Layers)

P. Company Level

Q. Function Level

R. Job Level

S. Position Level

List II: (Characteristics)

1. Very specific set of competencies mapped to a unique position like product knowledge.
2. Values and Core Competencies.
3. Competencies generally linked to Generic Job Roles.
4. Generic competencies that must exist in every person working for a specific function like HR or Finance.

(A) P-4, Q-2, R-1, S-3

(B) P-2, Q-4, R-3, S-1

(C) P-3, Q-1, R-4, S-2

(D) P-2, Q-3, R-4, S-1

Oct/Nov 2013

- 79.** Meridian Bank previously utilized a traditional 'Confidential Report' system for annual evaluations. What was a defining characteristic of this old system that led the bank to replace it?

- (A) It featured extensive joint goal setting between employees and management.
- (B) It was overly reliant on peer feedback, causing interpersonal conflicts.
- (C) It involved complex 720-degree feedback loops that were too time-consuming.
- (D) Lack of transparency, superior dominance, and absence of feedback for development.

May/June 2011

- 80.** Which of the following is a correctly matched pair regarding Competency terminology?

- (A) Competence — Focuses on the person's behaviour and attitudes.
- (B) Competency — Focuses on the results or outcomes.
- (C) Fully Effective Level — The standard expected of employees on entry into a role.
- (D) Stretch/Mastery Level — Displayed by employees who have mastered their role and provide advice.

incentives.

VI. Communicate the performance standards to the employees.

- (A) III, VI, I, IV, II, V
- (B) VI, III, I, II, IV, V
- (C) III, I, VI, IV, II, V
- (D) I, III, VI, IV, V, II

Oct/Nov 2009

73. Ms. Gupta is preparing for an appraisal interview with her subordinate. She wants to ensure the employee feels comfortable and opens up during the session. Following the recommended prerequisites, where should she ideally conduct the interview?

- (A) At a neutral place or the place of the appraisee, away from outside disturbance.
- (B) In her own cabin behind her desk to maintain a clear sense of professional authority.
- (C) In an open workspace area so that other team members can witness the transparency.
- (D) She should conduct the entire process over a quick, informal phone call to save time.

May/June 2023

74. Match the Common Errors in Performance Appraisals listed in List I with their descriptions provided in List II:

List I: (Common Errors)

- P. Halo Effect
- Q. Central Tendency
- R. Strict Rating / Leniency
- S. Similar error

List II: (Descriptions)

1. Comparing the employee with oneself on various traits.
 2. A tendency to allow one trait to influence the assessment consistently high or low.
 3. Tendency of the superior that interferes with the appraisal resulting in influenced assessment.
 4. Assigning average ratings to all employees without evaluating fearlessly.
- (A) P-3, Q-4, R-2, S-1
 - (B) P-2, Q-4, R-3, S-1
 - (C) P-4, Q-2, R-1, S-3
 - (D) P-2, Q-3, R-4, S-1

Oct/Nov 2015

75. Realizing the employee's performance is falling much below expected levels due to behavioral issues, Ms. Gupta decides to take salvaging action and counsel him. What should be her motto during this counselling?

- (A) Criticising without crippling.
- (B) Criticising the person, not the behavior.
- (C) Passing judgmental remarks to enforce discipline.
- (D) Assuming a role of strict dominance without listening.

May/June 2018

76. Match the Tools used in Assessment Centres listed in List I with their descriptions provided in List II:

List I: (Assessment Centre Tools)

- P. In-basket Exercise
- Q. Case Studies
- R. Role Play
- S. Business Games

List II: (Descriptions)

1. Adopting roles from real business situations to evaluate human relations processes.
 2. An interactive, relatively unstructured simulation like running a manufacturing operation.
 3. A simulation representing day-to-day decision making dealing with accumulated correspondences.
 4. Making a decision about a particular scenario provided with ambiguous and sometimes contradictory factual information.
- (A) P-3, Q-4, R-1, S-2
 - (B) P-4, Q-3, R-2, S-1
 - (C) P-2, Q-1, R-4, S-3
 - (D) P-3, Q-1, R-4, S-2

Oct/Nov 2017

77. A bank is undertaking Competency Mapping. They are creating a highly specific set of competencies mapped to the unique role of 'Foreign Exchange Derivative Dealer', focusing on niche domain experience. Which layer of competency mapping are they defining?

- (A) Company Level
- (B) Position Level
- (C) Function Level
- (D) Departmental Level

not always completely eliminate competition among peers.

9. (A) Key causal and Intervening enterprise variables

In the Human Asset Accounting Method, the organization's human value is assessed through periodic measurements of specific variables. Causal variables include management policies and leadership styles, while intervening variables encompass employee attitudes, motivation, and loyalty. Together, these measurements help determine the current value of human assets and how they contribute to the long-term financial health of the enterprise.

10. (A) I and II only

Performance appraisal systems serve critical administrative functions like informing decisions on promotions and salary increases. They also provide a standardized framework for evaluating all employees, ensuring they are compared on a fair and common footing. However, they do not guarantee immediate financial rewards, as increments usually depend on broader organizational factors and specific performance-linked criteria defined by policy.

11. (A) Loyalty, attitudes, motivation level, and effective interaction

Under the Human Asset Accounting framework, intervening variables represent the internal state of the organization's human resources. These include critical factors like employee morale, commitment, attitudes toward management, and the effectiveness of interpersonal communication. These variables are influenced by causal factors, such as leadership behavior, and they directly impact the final output and overall productivity of the organization.

12. (D) I, II, III, and IV

Performance appraisal systems are designed to fulfill multiple strategic organizational needs. They help maintain an inventory of human talent and skills, provide motivation to high achievers, and offer a platform for counselling underperformers. Additionally, they provide the necessary data for administrative decisions, such as determining performance-linked salary increments, thereby aligning individual efforts with the goals of the organization.

13. (B) A joint process where short-term goals are set collaboratively by employees and superiors. Management By Objectives is founded on the principle of participative goal setting. In this system, superiors and subordinates work together to identify common goals and define the individual's areas of responsibility in terms of expected results. This collaborative approach is intended to increase employee commitment and motivation by involving them directly in the planning and evaluation of their own work.

14. (D) I, II, III, and IV

Managing average performers effectively requires a multifaceted approach. Managers should understand what drives these employees, analyze their thought processes at work, and regularly show appreciation for their consistent contributions. Furthermore, assessing their skills to see if a lateral move or a change in job role would better utilize their talents is a key strategy for enhancing their overall productivity.

15. (D) Feedback should be suggestive, focusing on training and the developmental needs of the individual.

Effective appraisal feedback should be constructive and forward-looking rather than purely evaluative or punitive. By taking a suggestive approach, the appraiser focuses on identifying training opportunities and addressing the developmental needs of the employee. This method encourages professional growth and ensures that the feedback session serves as a tool for improvement rather than a source of discouragement.

16. (D) I, II, III, and IV

In an Assessment Centre, assessors must follow a disciplined protocol to ensure objectivity. This involves carefully observing candidate behavior, recording it accurately, and reporting findings clearly. Crucially, assessors must suspend their own judgment during the observation phase to avoid early bias. Only after all evidence is gathered do they collectively evaluate the candidates against the predefined competency framework.

timely manner. These features ensure fairness and facilitate development. Conversely, a good system should avoid the halo effect, which is a common rating error where a single positive trait unfairly influences the entire evaluation, leading to inaccurate results.

50. (C) Competency is a person-oriented behavioural approach, whereas competence is a task-oriented functional approach.

In professional literature, competency is viewed as person-oriented, focusing on the behaviors and attitudes an individual brings to their work. Competence, in contrast, is task-oriented and describes the specific job functions and outputs an individual must produce to meet organizational standards. This distinction is crucial for HR professionals when designing recruitment, training, and performance management systems.

51. (D) I, II, and III

All three statements correctly highlight the distinctions between these terms. Competence is task-oriented and focuses on whether the desired results or outcomes are achieved. Competency is people-oriented and examines the specific behaviors and attitudes a person demonstrates. Together, these concepts provide a comprehensive framework for understanding and evaluating job performance from both a functional and a behavioral perspective.

52. (D) Predicting an employee's attributes and skills required to perform effectively in a higher capacity.

Potential appraisal is distinct from performance appraisal because it focuses on the future rather than the past. It aims to identify employees who have the latent skills and attributes necessary to take on more significant responsibilities or higher-level roles. This process helps organizations with succession planning by identifying individuals who can be groomed for future leadership or specialized positions.

53. (A) I, II, and III only

Planning an Assessment Centre involves identifying the purpose of the assessment, defining the target position, and preparing a list of critical competencies to be measured. Skipping the validation of tools is not a

recommended step; in fact, ensuring the reliability and validity of the assessment exercises is an essential element of a standard and professional Assessment Centre design.

54. (C) MBO is a system which concentrates on results and not on the process, and may create a conflicting situation when it comes to goal-setting.

Management By Objectives is focused on achieving specific results rather than the methods used. While it promotes participation, it can lead to conflict if there is disagreement between the supervisor and subordinate during the goal-setting phase. It emphasizes measurable outcomes and is designed to increase motivation through personal commitment to goals, but its focus on results can sometimes overshadow the process.

55. (D) I, II, III, and IV

Competency mapping occurs at multiple organizational levels. The company level defines core values. The function level identifies generic competencies for departments like HR. The job level links competencies to generic roles. Finally, the position level maps highly specific competencies to unique roles. This comprehensive approach ensures that every level of the organization has a clear and relevant set of behavioral standards.

56. (A) Judgments must be based on pooled information from assessors, sorting out variations through discussion.

Pooling of information is a vital safeguard in the Assessment Centre process. It requires that all assessors who observed a candidate across different exercises come together to share their data. By discussing their various observations and reconciling any conflicting evaluations, the group can reach a more objective and accurate consensus on the candidate's competencies than any single assessor could alone.

57. (D) I, II, III, IV, and V

A comprehensive Behavioural Event Interview follows a structured sequence. It starts with an introduction, moves to a discussion of the job description, and then delves into the core behavioral events. The interview then explores the characteristics needed for success in the

25. (A) Reiteration

The Behavioural Event Interview commonly uses the STAR technique to gather detailed information. This acronym stands for Situation, Task, Action, and Result. It requires the interviewee to describe the specific context, the challenges faced, the actions they personally took, and the final outcome. Reiteration is not a standard component of this structured data-gathering method used for competency assessment.

26. (D) Assertion (A) is false, but Reason (R) is true.

In the Behavioural Event Interview method, what people say about their motives is not considered highly credible on its own. The technique assumes that people's self-descriptions can be biased. Therefore, the interviewer focuses on obtaining detailed descriptions of actual past behaviors in specific incidents to uncover the true competencies and motives that drove those actions, rather than relying on self-reported traits.

27. (A) It is difficult to compare an individual with others having varying behaviour traits.

The Straight Ranking Method is criticized because it forces a simple hierarchy on employees without accounting for the complexity of their individual strengths and weaknesses. It is particularly difficult to use when trying to compare individuals who possess very different behavioral traits or who work in roles with varying requirements, leading to subjective and potentially unfair evaluations.

28. (C) Show Appreciation

When a manager publicly praises an average performer for their consistency and daily contributions, they are employing the strategy of showing appreciation. This technique recognizes that average performers are the backbone of most organizations. By providing recognition, managers can improve morale and motivation, helping these employees feel valued and potentially encouraging them to reach higher levels of performance.

29. (B) Preparing a list of Critical Competencies based on the specific purpose and position.

The most vital step in designing an effective Assessment Centre is identifying the critical competencies required for the specific job role. These competencies serve as the foundation for selecting the appropriate exercises and evaluation criteria. Without a clear and relevant competency framework, the entire assessment process lacks the necessary focus and validity to accurately predict a candidate's future job performance.

30. (C) Business Games and Interactive Simulation Exercises.

Business games and interactive simulations involve placing candidates in a dynamic, realistic scenario where they must work together to manage a simulated operation. These exercises are specifically designed to observe how individuals handle strategic planning, decision-making, and teamwork in a complex environment. They provide assessors with valuable data on how candidates interact and perform under simulated business pressures.

31. (D) To provide performance feedback and help employees understand areas for improvement.

Performance counselling is an interactive process aimed at development. Its primary goal is to provide employees with clear feedback on their performance and to collaboratively identify specific areas where they can improve. This supportive approach helps employees take ownership of their own professional growth and align their behaviors with organizational expectations, rather than serving as a punitive measure.

32. (D) Pooling of information

The pooling of information is a core requirement of the Assessment Centre method. It ensures that the final evaluation of a candidate is not the result of a single person's opinion. Instead, multiple assessors meet to discuss their observations from various exercises, resolve any discrepancies, and reach a consensus, which significantly increases the reliability and fairness of the overall assessment.

33. (A) II, V, I, IV, III

A standard Behavioural Event Interview begins with an introduction and explanation of the process. This is followed by a review of the job roles and responsibilities. The core of the interview focuses on discussing specific behavioral events. Afterward, the interviewer explores the characteristics needed for the job, and the session concludes with a summary of the discussion.

34. (C) Being suggestive in nature and focusing on the developmental needs of the employee.

When providing feedback on a failure, it is essential to remain constructive. A suggestive approach focuses on what can be learned from the experience and identifies the training or development needed to prevent future issues. This maintains the employee's motivation and focuses on long-term improvement, whereas a fault-finding or purely critical approach often leads to defensiveness and decreased performance.

35. (A) P-4, Q-1, R-3, S-2

The Free Form Essay Method is unstructured, giving the superior freedom to write. The Straight Ranking Method is the simplest, ordering employees by merit. The Comparison Method involves comparing employees against each other on specific factors. Finally, the Graphic Rating Scale uses weightages for quality and quantity on a continuous scale, providing a more quantified approach to traditional performance evaluation.

36. (D) Identify effective and ineffective job behaviours used to describe performance measures.

The development of Behaviourally Anchored Rating Scales begins with identifying specific examples of effective and ineffective behaviors for a job. These critical incidents are gathered from people familiar with the role, such as supervisors or incumbents. This initial step is crucial because these real-world behavioral examples form the "anchors" that make the rating scale more objective and job-related than traditional methods.

37. (B) P-3, Q-1, R-4, S-2

The post performance-based approach uses Behavioural Event Interviews to identify what distinguishes high performers. The job-focused approach uses questionnaires centered on the position itself. A competency dictionary is a comprehensive list of all competencies for different job families, while a competency description provides the specific definition and behavioral indicators for a particular competency, ensuring clarity across the organization.

38. (C) Post Performance-based Approach

The post performance-based approach involves interviewing both outstanding and average performers to identify the specific behaviors and characteristics that differentiate them. By using the Behavioural Event Interview technique, researchers can pinpoint the competencies that are actually linked to superior performance in a given role, which then forms the basis for the competency model for that specific position.

39. (B) Management By Objectives (MBO) — Minimises external controls and emphasises joint goal setting.

Management By Objectives is a modern appraisal technique that shifts the focus from external supervision to internal motivation and commitment. Its core feature is the collaborative setting of goals between managers and employees. By participating in the goal-setting process, employees are more likely to take ownership of their results, and the process emphasizes achieving specific, measurable objectives rather than just following procedures.

40. (A) Incorporating two rounds of feedback at a timely interval to ensure targets are achieved.

The 720-degree appraisal system is designed as an intensive, two-stage evaluation process. It involves a full 360-degree feedback cycle where performance is measured and targets are set. This is followed by a second 360-degree cycle after a short interval to track progress and provide further feedback. This dual-loop approach ensures that developmental goals are continuously monitored and successfully met.

- 41.** (A) Competence — It focuses on the person's behaviour and attitudes.
This pair is incorrectly matched because focusing on a person's behavior and attitudes is the definition of competency, not competence. Competence is concerned with the specific tasks, job outputs, and functional standards required by the organization. Competency, on the other hand, is person-oriented and deals with the underlying behavioral traits that enable an individual to perform those tasks effectively.
- 42.** (B) A process of evaluating employee performance and qualifications against specific job requirements.
Heyel defines performance appraisal as a systematic process of evaluating the performance and qualifications of an employee. This evaluation is conducted in relation to the specific requirements of the job they are currently holding. It serves as a tool for management to assess how well employees are contributing to the organization's goals and to identify areas for future development.
- 43.** (C) Both I and II
Both statements accurately describe the 720-degree appraisal method. It is structurally a 360-degree appraisal performed twice to act as a comprehensive double-check on performance. The second round is conducted after a specific interval to compare the results against the initial baseline, ensuring that the individual is making progress and is on track to achieve the goals set during the first phase.
- 44.** (C) A 360-degree appraisal conducted twice, measuring performance and targets after a timely interval.
A 720-degree appraisal is an advanced performance management system that involves conducting a 360-degree feedback process two times. The first cycle is used to assess current performance and set future targets. The second cycle provides a follow-up assessment to evaluate improvement and ensure that the developmental feedback provided earlier has been effectively implemented by the employee.
- 45.** (A) Only I
Behaviourally Anchored Rating Scales evaluate performance by using specific behavioral incidents as benchmarks. This makes the evaluation more objective. However, the second statement is incorrect because developing BARS is actually a complex, time-consuming process. It requires multiple stages, including gathering incidents from job experts and validating those incidents, rather than being a simple or rapid method that bypasses these steps.
- 46.** (C) The Bell System
In 1958, the Bell System in the United States became the first major industrial organization to operationally adopt the assessment center model for management development. This followed the earlier use of similar techniques by military organizations during World War II. The Bell System's "Management Progress Study" established the classical design and practices that continue to influence modern assessment centers globally.
- 47.** (C) I and III only
In an appraisal interview, a manager should praise the employee for their achievements and offer all possible support for their growth. These are positive "Do's." However, using vague language to avoid confrontation is a "Don't." Clear and actionable communication is essential for effective performance management, as ambiguity can lead to confusion and prevent the employee from making necessary improvements.
- 48.** (D) Judgmental, Developmental, and Counselling by the superior
Douglas McGregor identified that performance appraisal plans are designed to meet three fundamental organizational needs. The judgmental need involves making administrative decisions like salary and promotion. The developmental need focuses on improving the performance of the individual. Finally, the counselling need involves the superior providing guidance and support to help the employee grow professionally within the organization.
- 49.** (C) I and III only
A robust performance appraisal system should be able to clearly distinguish between high and low performers and provide feedback in a

reason why conflict arises; conflict is a potential side-effect.

- 66.** (C) To immediately sanction annual financial bonuses.

Assessment Centres are primarily used for long-term developmental and selection purposes, such as identifying managerial potential, assessing training needs, or conducting recruitment. They are not designed for the immediate administration of annual financial bonuses. Bonus decisions are typically part of a standard annual performance appraisal cycle focused on past results rather than the intensive competency testing found in Assessment Centres.

- 67.** (A) Understand how they define Success

By looking into an employee's outside interests and identifying what truly motivates them, Mr. Sharma is trying to understand how the employee defines success. This strategy recognizes that not everyone is driven by traditional career advancement. Understanding an individual's personal values and sources of enthusiasm can help a manager align work tasks with those interests, potentially increasing the employee's engagement and performance.

- 68.** (D) Allowing one trait to influence the assessment to rate an employee consistently high or low.

The halo effect is a common cognitive bias where a rater allows their overall impression of an employee, or their perception of one specific positive trait, to color their entire evaluation. This leads to the employee being rated consistently high across all dimensions, even those where they may be average or weak. When the influence is negative, it is often called the "horns effect."

- 69.** (D) Assess skills and change job-role if need be
When a manager identifies that an employee has skills not being used in their current position and moves them to a different department, they are applying the strategy of assessing skills and changing job roles. This lateral movement can re-energize an average performer by placing them in a role that is a better fit for their natural talents and professional capabilities.

- 70.** (C) A listener who allows the employee to speak and acts as an encouraging senior colleague.

In a modern performance appraisal interview, the appraiser should ideally act as a supportive coach and listener. By encouraging the employee to share their perspective and acting as a senior colleague rather than a strict judge, the appraiser creates a safe environment for honest discussion. This collaborative atmosphere is essential for effective performance counselling and identifying meaningful opportunities for future growth and development.

- 71.** (B) Preparing a list of Critical Competencies based on the specific purpose and position.

For any Assessment Centre to be effective, it must be grounded in a clear set of critical competencies tailored to the specific role, such as a Zonal Manager. These competencies dictate the types of exercises to be used and the behavioral indicators that assessors will look for. Identifying these competencies is the most critical planning step to ensure the assessment process is valid and purposeful.

- 72.** (A) III, VI, I, IV, II, V

The performance appraisal process begins with setting standards, which are then communicated to employees. Actual performance is then measured and compared against these established benchmarks. Following this, the results are discussed with the employee in a feedback session. The final stage involves taking corrective actions and making decisions regarding incentives or other administrative outcomes based on the overall performance evaluation.

- 73.** (A) At a neutral place or the place of the appraisee, away from outside disturbance.

To ensure a successful appraisal interview, the setting should be private and free from interruptions. Choosing a neutral location or the employee's own workspace can help reduce the power imbalance and make the employee feel more comfortable. This environment encourages open communication and a more productive dialogue about performance and development than a formal, potentially intimidating setting like the supervisor's office.

role before concluding with a summary. This systematic approach ensures that all relevant competency-related information is gathered in a consistent and thorough manner.

- 58.** (B) Traditional methods lay importance on the results and job achievement rather than on personality.

This statement is incorrect because traditional methods of performance appraisal, such as the Graphic Rating Scale or the Free Form Essay Method, often focused heavily on an employee's personality traits and characteristics. It is the modern methods, like Management By Objectives, that shifted the primary focus toward measurable results, job achievements, and objective behavioral indicators rather than just subjective personality assessments.

- 59.** (D) I, II, III, IV, and V

Assessment Centres use a variety of tools to observe candidate behavior from multiple perspectives. Common exercises include group discussions to assess teamwork, psychometric tests for cognitive or personality traits, in-basket exercises for administrative skills, case studies for analytical thinking, and role plays for interpersonal skills. This combination of tools provides a holistic and highly reliable assessment of a candidate's managerial potential and competencies.

- 60.** (C) Organisations in Indian culture typically take the drastic step of removing people just because they are average performers.

In Indian organizational culture, it is not typical to terminate employees simply for being average performers. Instead, most organizations value these employees for their stability and loyalty. They generally prefer using developmental interventions, such as job rotation, training, or skill assessments, to improve performance rather than resorting to the drastic step of removal, which is seen as a last resort.

- 61.** (D) I, II, III, IV, and V

A standard Assessment Centre must include several critical elements to be valid. These include using multiple assessment techniques and multiple trained assessors. Data must be pooled through consensus discussion, and observations must be recorded at the time they

occur, with evaluations made later. Finally, the exercises must be specifically designed and validated to ensure they reliably measure the intended competencies for the role.

- 62.** (C) Human Asset Accounting Method

The Human Asset Accounting Method is considered a modern approach to appraisal. It attempts to place a monetary value on an organization's human resources and tracks changes in that value over time. Traditional methods, such as straight ranking, graphic rating scales, and group appraisal, are older techniques that focus more on comparing employees or rating them on subjective traits and basic performance factors.

- 63.** (C) Assertion (A) is true, but Reason (R) is false.

While it is true that Assessment Centres are time-consuming and expensive to implement, the reason provided is incorrect. In reality, many employees, including good performers, may feel apprehensive about the intensive "exam-like" environment of an Assessment Centre. The complexity and duration of the process are due to the need for rigorous, multiple evaluations, not because employees are demanding more exams.

- 64.** (D) Structural Dependency

Common errors in performance appraisal include the halo effect, central tendency, and the spillover effect. "Structural Dependency" is not a recognized term for a psychological bias or rater error in performance management literature. Appraisal errors typically involve cognitive biases where the rater's judgment is clouded by specific traits, a tendency to be too lenient or strict, or the influence of past performance.

- 65.** (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

Both statements are individually true. MBO can lead to conflict during goal-setting if there is a mismatch in expectations between the manager and the subordinate. It is also true that MBO is a participative process involving feedback. However, the fact that it is a participative process is the goal of the system, not the direct

CHAPTER 15

Conflict Management and Negotiation

May/June 2016

1. To sum up effective negotiation, what is the stated outcome of a 'win-lose' or 'lose-lose' situation?
 - (A) They are considered highly congenial because at least one party's primary goal is met.
 - (B) They fail to achieve a solution, meaning negotiation skills were insufficient.
 - (C) They indicate that a power-based approach was perfectly executed.
 - (D) They represent the ideal objective of any task-specific conflict.

Oct/Nov 2009

2. Why should making conflict resolution the priority be favoured over "winning" or "being right"?
 - (A) Yielding to the other party is perceived as demonstrating weakness, ensuring the conflict ends.
 - (B) Because being right often leads to disciplinary action by the management.
 - (C) The primary goal is to maintain the relationship rather than winning the argument.
 - (D) Because winning requires holding onto grudges based on past conflicts, which consumes time.

May/June 2023

3. According to estimates, what percentage of their time do managers spend resolving workplace conflicts?
 - (A) At least 15 per cent
 - (B) At least 20 per cent
 - (C) At least 25 per cent
 - (D) At least 30 per cent

Oct/Nov 2018

4. In the conflict resolution process, what is the rationale behind the principle "Focus on the present"?
 - (A) It ensures that negotiators can continuously remind the other party of their past

mistakes to gain leverage.

- (B) Present conflicts are easier to litigate in an organisational dispute panel than past ones.
- (C) It allows the manager to assign blame effectively without relying on historical data.
- (D) Holding on to past grudges impairs the ability to see the reality of the current situation.

May/June 2007

5. Which of the following statements correctly represents the fundamental nature of conflict in an organisation?
 - (A) Conflict solely arises from deliberate attempts by employees to sabotage organisational goals.
 - (B) Conflict is always a sign of a poor relationship and indicative of organisational failure.
 - (C) Conflict can be completely eradicated if managers implement strict disciplinary policies and continuous electronic monitoring of staff.
 - (D) A clash between individuals due to differences in thought processes, attitudes, and requirements.

Oct/Nov 2025

6. A specific process is suggested to ensure positive results when dealing with conflict. Which of the following is NOT one of those recommended steps?
 - (A) Be willing to forgive.
 - (B) Agree to disagree.
 - (C) Focus on the past to assign blame.
 - (D) Listen for what is felt as well as said.

May/June 2012

7. Which of the following is NOT considered a fundamental principle of conflict?
 - (A) Conflict is associated with scarce resources.
 - (B) Conflict is a sign of a poor relationship.

74. (B) P-2, Q-4, R-3, S-1

The Halo Effect occurs when one trait influences the entire assessment. Central Tendency is the inclination to give everyone average ratings. Strictness or Leniency describes a general bias that interferes with objective assessment. Finally, the “Similar Error” happens when a superior compares the employee with themselves, often rating those more similar to them more favorably than those who are different.

75. (A) Criticising without crippling.

The core philosophy of effective performance counselling is to offer constructive criticism without damaging the employee’s self-esteem or motivation. The goal is to address behavioral or performance issues in a way that the employee feels supported and empowered to change. By focusing on the behavior rather than the person, the supervisor can provide the necessary guidance for improvement without causing long-term psychological distress.

76. (A) P-3, Q-4, R-1, S-2

The in-basket exercise simulates handling daily administrative tasks and decisions. Case studies require analyzing a complex scenario with ambiguous information. Role play involves acting out real business situations to test interpersonal skills. Business games are interactive and less structured simulations, such as managing a factory, designed to observe teamwork and strategic thinking in a dynamic environment where decisions have immediate consequences.

77. (B) Position Level

Mapping competencies for a very specific and unique role, like a Foreign Exchange Derivative Dealer, occurs at the position level. This is the most granular level of competency mapping, focusing on the niche skills and specialized experience required for a specific job title. It goes beyond generic functional or job-level competencies to define what is needed for success in that particular, highly specialized position.

78. (B) P-2, Q-4, R-3, S-1

Company-level mapping deals with core values and organizational competencies. Function-

level mapping covers generic competencies for departments like HR or Finance. Job-level mapping is linked to broader, generic job roles. Position-level mapping is the most specific, focusing on unique roles and specialized knowledge requirements. This hierarchical approach ensures that competency requirements are clearly defined from the broad organizational level down to individual positions.

79. (D) Lack of transparency, superior dominance, and absence of feedback for development.

The traditional confidential report system was characterized by its secrecy and top-down nature. Employees were often unaware of what was written in their reports, and there was little to no feedback provided for their professional growth. This lack of transparency and the dominance of the superior’s subjective opinion led many modern organizations to replace these systems with more open and developmental appraisal methods.

80. (D) Stretch/Mastery Level — Displayed by employees who have mastered their role and provide advice.

In competency frameworks, the Stretch or Mastery level represents the highest degree of proficiency. It describes employees who have not only mastered their own job responsibilities but also serve as experts who can provide guidance and advice to others. This level is characterized by a deep understanding of the role and the ability to apply competencies in complex or novel situations across the organization.

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- 17.** (B) BEI is based on the premise that the best predictor of future behaviour is past behaviour. The Behavioural Event Interview is a structured technique designed to uncover a candidate's actual competencies by focusing on their past actions. It operates on the psychological principle that how a person handled specific situations in the past is the most reliable indicator of how they will perform in similar situations in the future, providing more reliable data than hypothetical scenarios.
- 18.** (D) I, II, III, IV, and V
A comprehensive Potential Appraisal Report evaluates several dimensions to determine if an employee is ready for higher responsibilities. This includes assessing their functional knowledge, managerial capabilities, behavioral flexibility, and innovation. Additionally, self-managing skills are examined to see how well the individual can regulate their own performance. These combined attributes provide a holistic view of an individual's capacity for future growth.
- 19.** (A) Forced Choice Description effectively eliminates all biases by allowing the superior to freely draft descriptions.
The statement regarding Forced Choice Description is incorrect because this method does not allow the superior to freely draft descriptions. Instead, it requires the rater to choose from sets of prepared statements that appear equally favorable or unfavorable. This structure is specifically designed to reduce rater bias by making it difficult for the appraiser to intentionally manipulate the final score.
- 20.** (D) I, II, III, IV, and V
Adaptability in a professional context is demonstrated through various behaviors, such as quickly adjusting to changes and proactively looking for ways to make new processes work. It also involves making suggestions for improvement, showing a continuous willingness to learn new techniques, and shifting one's strategy or approach when the demands of a specific situation or environment change unexpectedly.
- 21.** (D) Competence is easily transferable from one person to another.
Competence is generally considered to be task-oriented and describes the specific outputs or standards required for a job. It is not something that is easily transferable from one person to another like a physical tool. In contrast, competency refers to the underlying behaviors and attitudes of a person. The idea that competence is easily transferable is a common misconception in HR terminology.
- 22.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The 720-degree appraisal is characterized as a 360-degree appraisal conducted twice. The first round establishes benchmarks and sets targets, while the second round, conducted after a set interval, evaluates progress and provides feedback. This iterative process ensures that performance is not just measured once but is continuously monitored and supported to ensure that the employee successfully meets their professional goals.
- 23.** (B) Administering a psychometric test to external job applicants.
Performance appraisal is a process focused on evaluating the work of existing employees within an organization. Administering psychometric tests to external job applicants is a function of the recruitment and selection process, not performance appraisal. The standard appraisal cycle includes setting and communicating performance standards, measuring actual performance, and discussing the results with the employee for future development.
- 24.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Using current job performance as the sole basis for promotion is often problematic because success in a lower-level role does not automatically guarantee success in a higher-level position. Higher roles frequently require a different set of competencies, such as strategic thinking or leadership, which may not have been exercised or measured in the employee's current, perhaps more technical, job role.

- (C) Conflict is associated with interference.
 (D) Conflict is universal.

Oct/Nov 2014

8. In conflict management theory, “accommodating” consists of a high degree of cooperation and a low degree of assertiveness. Reason (R): Assertiveness involves taking action to satisfy the other party’s needs, while cooperativeness involves taking action to satisfy your own needs.
 (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 (C) Assertion (A) is true, but Reason (R) is false.
 (D) Assertion (A) is false, but Reason (R) is true.

May/June 2019

9. Consider the following statements regarding the characteristics of conflict:
 I. Conflict is inevitable and acts as an internal discord occurring due to differences in ideas, values, or interpretations.
 II. Educational level, family background, and organisational training differences guarantee that conflicts can be completely avoided if managed properly.
 Choose the correct option:
 (A) Both Statement I and Statement II are correct.
 (B) Both Statement I and Statement II are incorrect.
 (C) Statement I is correct, but Statement II is incorrect.
 (D) Statement I is incorrect, but Statement II is correct.

Oct/Nov 2006

10. Which of the following statements is correct regarding the “competing” strategy of conflict resolution?
 (A) Competing consists of a high degree of cooperation and a low degree of assertiveness.
 (B) Competing consists of a low degree of cooperation and a high degree of assertiveness.

- (C) Competing consists of a high degree of cooperation and a high degree of assertiveness.
 (D) Competing consists of a low degree of cooperation and a low degree of assertiveness.

May/June 2021

11. Consider the following statements regarding the viewpoints on conflict:
 I. Traditionalists believe that conflict is bad and should be avoided.
 II. Human relations experts feel that conflict is natural and calls for an open approach.
 III. Integrationists view conflict as a positive force unless it is misdiagnosed or mismanaged.
 IV. The only key to conflict resolution is strict avoidance and suppression of differing ideas.
 Which combination of statements is correct?
 (A) I, II, and III only
 (B) I, III, and IV only
 (C) II, III, and IV only
 (D) I, II, III, and IV

Oct/Nov 2010

12. During a budget allocation meeting, the marketing head uses aggressive tactics and leverages hierarchical authority to secure the maximum budget for his department, entirely disregarding the urgent financial needs of the IT department. Which conflict resolution approach is the marketing head employing?
 (A) Collaborating
 (B) Avoiding
 (C) Competing
 (D) Accommodating

May/June 2005

13. Which type of conflict involves differences based on work details and goals, including disputes about the sharing of resources and differences of opinion on procedures?
 (A) Relationship Conflict
 (B) Task Conflict
 (C) Value Conflict
 (D) Intra-personal Conflict

Oct/Nov 2022

14. Consider the following statements regarding the reasons for conflict:

- (C) Assertion (A) is true, but Reason (R) is false.
 (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2011

64. Which type of conflict arises from the need of an individual to play several roles simultaneously but finding time and resources inadequate to do so?
 (A) Interpersonal conflict
 (B) Value conflict
 (C) Frustration conflict
 (D) Role conflict

May/June 2010

65. While finalising a Conflict Management Process, which statement correctly describes the aspect of "Determine underlying need"?
 (A) The primary goal of the manager is to decide definitively which person is right and which is wrong.
 (B) Understanding the advantages of proposed solutions helps in discovering underlying needs.
 (C) Total silence from involved parties is interpreted as absolute agreement.
 (D) Looking first for solutions, rather than needs, is the most powerful tool.

Oct/Nov 2024

66. Mr Sharma is a dedicated branch manager and a devoted father. During the critical financial year-end closing week, his presence is strictly required at the branch until late evening. Concurrently, his son is performing in a major school competition where parental attendance is highly expected. Mr Sharma is struggling to fulfill both requirements simultaneously. This is a clear example of:
 (A) Intra-role conflict
 (B) Person-role conflict
 (C) Inter-role conflict
 (D) Approach-avoidance conflict

May/June 2017

67. Consider the following statements regarding the final steps of a Conflict Management Process:
 I. Following up to monitor actions involves scheduling a meeting in one or two weeks to determine how parties are doing.

- II. If the conflict remains unresolved and causes disruption, it is strictly forbidden to use an outside facilitator or expert.

Choose the correct option:

- (A) Both Statement I and Statement II are correct.
 (B) Both Statement I and Statement II are incorrect.
 (C) Statement I is correct, but Statement II is incorrect.
 (D) Statement I is incorrect, but Statement II is correct.

Oct/Nov 2005

68. Based on the reasons for conflict, which of the following statements is INCORRECT?
 (A) Fear of the unknown among employees creates resistance to change, leading to disbelief and conflict.
 (B) Different communication styles can lead to misunderstandings, driving conflict underground if there is a lack of communication.
 (C) When behavioural preferences of one party are incompatible with another's, personality clashes cause conflict.
 (D) Being extra diligent in work and repeatedly rechecking files cannot become a cause for conflict due to its positive nature.

May/June 2020

69. Conflict negotiation involves handling conflicts in various common situations. Consider the following:
 I. Conflicts between employees regarding responsibilities or work quality.
 II. Compensation disputes, such as finalising salary or entering a vendor contract.
 III. Disputes between a business and the public, like responding to a dissatisfied customer.
 Which of the above statement(s) is/are correct?
 (A) I and II only
 (B) II and III only
 (C) I and III only
 (D) I, II, and III

Oct/Nov 2015

70. In the context of reasons for conflict, what usually triggers a "Personality clash" in the workplace?

(D) Avoiding conflicts and hoping they will go away

May/June 2009

- 21.** A mid-level bank executive is offered a highly prestigious promotion that includes a substantial salary increment. However, accepting the promotion requires relocating to a remote branch notorious for exceptionally harsh living conditions and poor infrastructure. The executive is torn between the desire for the promotion and the desire to avoid the relocation. This scenario perfectly illustrates:
- (A) Avoidance-avoidance conflict
 - (B) Approach-approach conflict
 - (C) Inter-role conflict
 - (D) Approach-avoidance conflict

Oct/Nov 2011

- 22.** Which of the following pairs concerning actions to minimise conflicts is INCORRECTLY matched?
- (A) Regular Review of Job Descriptions - Done to align job descriptions with the pace of change.
 - (B) Regular Reports - Manager gets progress reports about subordinates' achievements and current needs.
 - (C) Suggestion Box - A mandatory tool exclusively for clients to register grievances against bank employees.
 - (D) Establish Rapport - Meeting subordinates at regular intervals to ask about achievements and problems.

May/June 2010

- 23.** Match the defence mechanisms resulting from frustration (List I) with their correct descriptions (List II).

List I: (Defence Mechanism)

- P. Aggression
- Q. Withdrawal
- R. Fixation
- S. Compromise

List II: (Description)

- 1. Search for a new goal
 - 2. Backing away from the barrier
 - 3. Attack of the barrier, physically or symbolically
 - 4. Continuation of efforts to break the barrier
- (A) P-2, Q-3, R-1, S-4
 - (B) P-3, Q-2, R-4, S-1

(C) P-4, Q-1, R-2, S-3

(D) P-3, Q-4, R-1, S-2

Oct/Nov 2024

- 24.** While framing a Conflict Management Policy, consider the following aspects:
- I. Acknowledge that a difficult situation may exist.
 - II. Disallow individuals from expressing feelings of anger to maintain decorum.
 - III. Understand and define the stated problem and its impact on work.
 - IV. Determine underlying needs by finding out why people want the solutions they initially proposed.
- Which combination of statements is correct?
- (A) I, II, and III only
 - (B) I, III, and IV only
 - (C) II, III, and IV only
 - (D) I, II, III, and IV

May/June 2017

- 25.** Regarding the major types of role conflict, consider the following statements:
- I. One type is the conflict between the person's personality and the expectations of the role.
 - II. Intra-role conflict is created by contradictory expectations about how a given role should be played.
 - III. Inter-role conflict results from differing requirements of two or more roles played at the same time.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

Oct/Nov 2005

- 26.** Consider the following areas when seeking common agreement in a conflict management process:
- I. The problem
 - II. The procedure to follow
 - III. Worst fears
 - IV. Some small change to give an experience of success
 - V. The termination of the opposing party
- Which of the above statement(s) is/are correct?

- (A) Initiation Phase
- (B) Differentiation Phase
- (C) Triggering Phase
- (D) Resolution Phase

Oct/Nov 2020

40. Consider the following vital skills and strategies for managing and resolving conflicts:
- I. Effective communication Skills
 - II. Patience
 - III. Impartial
 - IV. Address the conflict, not the person
 - V. Determine BATNA
- Which of the above statement(s) is/are correct?
- (A) I, II, and IV only
 - (B) I, III, IV, and V only
 - (C) II, III, IV, and V only
 - (D) I, II, III, IV, and V

May/June 2022

41. Regarding the three-step formula for conflict resolution, consider the following statements:
- I. "Listen" involves active listening skills which determine whether a conflict will have a positive or negative resolution.
 - II. "Talk" relies on clear and open communication, serving as the cornerstone of successful conflict resolution.
 - III. "Resolve" expects that after listening and detailed discussions, the conflict remains open-ended to avoid hurting sentiments.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

Oct/Nov 2023

42. Which of the following aligns with a common professional definition of conflict?
- (A) A situation in which people, groups or countries disagree strongly over fundamental principles or are involved in a serious argument.
 - (B) A struggle involving the perception of opposing incompatible goals, desires, demands, or needs.
 - (C) A clash between individuals arising from differences in thought processes, attitudes, understanding, or interests.

- (D) Internal discord occurring due to differences in ideas, values, or perceptions regarding specific situations.

May/June 2016

43. Consider the following steps included in the process of resolving conflict:
- I. Listen for what is felt as well as said
 - II. Make conflict resolution the priority rather than winning
 - III. Focus on the present
 - IV. Pick your battles
 - V. Be willing to forgive
- Which of the above statement(s) is/are correct?
- (A) I, II, and III only
 - (B) II, III, IV, and V only
 - (C) I, III, IV, and V only
 - (D) I, II, III, IV, and V

Oct/Nov 2009

44. In cases of severe workplace conflict where two employees are at odds with one another, what is identified as a crucial step for handling the situation effectively?
- (A) Terminating the employment of the individual found to be at fault for the disruption.
 - (B) Mandating joint counselling sessions until they reach a mutual and signed agreement.
 - (C) Relocating the involved employees to physically distinct job roles.
 - (D) Deducting a portion of their monthly remuneration as a standard disciplinary measure.

May/June 2023

45. An employee gets highly agitated because a colleague occupied his preferred unreserved parking spot. They argue fiercely, wasting an hour of productive time, despite several other empty spots being available nearby. Which principle of conflict resolution did the employee fail to apply?
- (A) Agree to disagree
 - (B) Pick your battles
 - (C) Listen for what is felt as well as said
 - (D) Be willing to forgive

Oct/Nov 2017

34. Match the conflict management strategies (List I) with their appropriate descriptions (List II).

List I: (Management Strategy)

- P. Impartial
- Q. Never Criticise
- R. Positive Attitude
- S. Set an objective

List II: (Description)

- 1. Never play the blame game; have the courage to accept if you have done anything wrong.
- 2. Develop a goal to work toward, such as compromising on an acceptable price that provides value and profit.
- 3. Make the other person understand if he is wrong, but do not make fun of him or hurt his sentiments.
- 4. Do not always support your friend; correct him if you feel he is wrong.

- (A) P-3, Q-4, R-2, S-1
- (B) P-4, Q-1, R-3, S-2
- (C) P-4, Q-3, R-1, S-2
- (D) P-1, Q-3, R-4, S-2

May/June 2008

35. What is the correct sequential order of the five phases of a conflict?
- (A) Prelude Phase, Initiation Phase, Triggering Phase, Differentiation Phase, Resolution Phase
 - (B) Triggering Phase, Prelude Phase, Initiation Phase, Differentiation Phase, Resolution Phase
 - (C) Prelude Phase, Triggering Phase, Initiation Phase, Differentiation Phase, Resolution Phase
 - (D) Prelude Phase, Triggering Phase, Differentiation Phase, Initiation Phase, Resolution Phase

Oct/Nov 2013

36. During a heated negotiation regarding branch targets, Officer A begins to insult Officer B's educational background instead of discussing the target figures. Officer B calmly ignores the insult and brings the conversation back to the target allocation data. Which conflict management strategy is Officer B effectively demonstrating?
- (A) Never Criticise

- (B) Find shared interests
- (C) Determine BATNA
- (D) Address the conflict, not the person

May/June 2015

37. Consider the following statements about the phases of conflict:
- I. The Prelude Phase involves vital aspects like dissimilarities in cultural and educational backgrounds.
 - II. The Triggering Phase requires an event to trigger the conflict, as no conflict arises on its own.
 - III. The Differentiation Phase is when individuals voice out their differences against each other and raise reasons for the conflict.
 - IV. The Resolution Phase is when the conflict reaches nowhere and individuals must continue fighting to find a conclusion.
- Which combination of statements is correct?
- (A) I, II, and III only
 - (B) I, III, and IV only
 - (C) II, III, and IV only
 - (D) I, II, III, and IV

Oct/Nov 2012

38. The following question consists of two statements, an Assertion (A) and a Reason (R). Select the correct option.
- Assertion (A): In the process of negotiation, the golden rule is to attain a 'win-win' situation.
- Reason (R): Both parties should feel that they achieved something worth it to them, whereas 'win-lose' or 'lose-lose' situations fail to achieve a congenial solution.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

May/June 2011

39. In which phase of conflict do individuals specifically voice out their differences against each other and raise the reasons for the conflict?

Oct/Nov 2006

52. A cross-functional team in a bank experiences frequent disagreements over resource allocation. After several meetings, they confront the issues openly, negotiate resource distribution, and ultimately develop a stronger mutual trust that allows the team to handle future challenges effectively. This scenario best illustrates which characteristic of conflict?
- (A) Conflict is associated with interference.
 (B) Conflict cannot always be resolved.
 (C) Conflict involves opposition based on imagination.
 (D) Conflicts are an opportunity for growth.

May/June 2021

53. What is the correct sequence of the five steps in the conflict resolution process?
- (A) Look beyond, Find out the source of the conflict, Take suggestions for solution, Identify acceptable solutions, Final agreement
 (B) Find out the source of the conflict, Look beyond, Take suggestions for solution, Identify acceptable solutions, Final agreement
 (C) Find out the source of the conflict, Take suggestions for solution, Look beyond, Identify acceptable solutions, Final agreement
 (D) Take suggestions for solution, Find out the source of the conflict, Look beyond, Identify acceptable solutions, Final agreement

Oct/Nov 2010

54. What is a recommended approach when dealing with disputes involving fundamental values?
- (A) Persuade the opposing party to abandon their ethical and political beliefs through rigorous debate.
 (B) Impose a strict top-down directive to ensure organisational uniformity over individual values and choices.
 (C) Aim for a cognitive understanding of the opposing point of view without emotional connection.
 (D) Avoid the discussion entirely to prevent heightening levels of defensiveness and alienation among staff.

May/June 2005

55. Regarding the later steps (Steps 3, 4, and 5) of the conflict resolution process, which of the following statements is INCORRECT?
- (A) In Step 3, you ask the parties "How can you make things better between you?" to solicit their ideas for a solution.
 (B) In Step 5, the manager must write up a legally binding contract with specified actions and timeframes for every resolved conflict.
 (C) In Step 4, the manager should point out the merits of various ideas not only from each other's perspective but in terms of organisational benefits.
 (D) In Step 5, the goal is to reach a mutually accepted agreement, and conveying the solution politely may be sufficient.

Oct/Nov 2022

56. All of the following are characteristics or outcomes associated with Relationship Conflict, EXCEPT:
- (A) It is easily solved through basic communication and internal employee debates.
 (B) It develops over disagreements and differences between individuals or groups.
 (C) It is strictly over personal issues and is completely unrelated to work tasks.
 (D) It can be long-lasting and hurt overall employee job commitment and productivity.

May/June 2018

57. Match the conflict management concepts (List I) with their corresponding styles or goals (List II).
- List I: (Management Concept)
 P. Category of conflict management involving three main styles
 Q. Category of conflict management involving five main styles
 R. Fundamental goal of Conflict Management
 S. Unordered method strategy
- List II: (Descriptions/Styles)
 1. Minimising affective conflicts at all levels
 2. Task-specific, research-oriented requiring proper attention
 3. Styles including forcing, withdrawing, smoothing, compromising, and problem solving

Oct/Nov 2018

46. Consider the following statements regarding the impact of workplace conflict, particularly in service organisations like Banks:

- I. Conflict at the workplace has adverse effects that impend business immensely.
- II. Banks are custodians of public money, making conflict management a critical business and administrative role.
- III. The performance of an executive in handling conflict should be excluded from Key Performance Indicators to maintain objectivity.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II and III

May/June 2007

47. Match the following conflict resolution approaches (List I) with their descriptions (List II).

List I: (Resolution Approach)

- P. Avoiding
- Q. Accommodating
- R. Compromising
- S. Competing

List II: (Description)

1. Takes steps to satisfy the other party's concerns at the expense of own needs
2. Tries to ignore or sidestep the conflict, hoping it will resolve itself
3. Tries to satisfy the desires of the manager at the expense of the other parties
4. Helps in finding an acceptable resolution that will partly satisfy all parties

- (A) P-1, Q-2, R-3, S-4
- (B) P-4, Q-3, R-2, S-1
- (C) P-2, Q-4, R-1, S-3
- (D) P-2, Q-1, R-4, S-3

Oct/Nov 2025

48. The main characteristics of conflict highlight its nature and role in relationships. Which of the following is NOT considered a main characteristic of conflict?

- (A) Conflict involves opposition.
- (B) A conflict is essentially a situation that is more complex than just a simple disagreement.

- (C) Conflict will always remain a constant and unavoidable presence among human beings.

- (D) Response to conflicts is based on an objective review of facts.

May/June 2012

49. In conflict resolution, which approach involves finding a solution that entirely satisfies the concerns of all involved parties?

- (A) Compromising
- (B) Collaborating
- (C) Accommodating
- (D) Competing

Oct/Nov 2014

50. The following question consists of two statements, an Assertion (A) and a Reason (R). Select the correct option.

Assertion (A): Integrationists view conflict as an inevitable and helpful positive force.

Reason (R): They believe that conflict provides an avenue to know opinions and an opportunity for creativity and persuasion.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2019

51. A branch manager desperately needs an officer to take on a highly complex account. The officer agrees to take the account but demands to be excused from routine daily reporting. The manager, prioritising the officer's willingness over his own desire for routine reports, completely gives in to the officer's demand. Which resolution strategy is the manager using?

- (A) Accommodating
- (B) Competing
- (C) Avoiding
- (D) Compromising

I. Status conflict occurs when everyone wants to be a leader and nobody wants to be a follower.

II. Incongruence happens when an employee is required to do something that is beyond his/her liking or interests.

Choose the correct option:

- (A) Both Statement I and Statement II are correct.
- (B) Both Statement I and Statement II are incorrect.
- (C) Statement I is correct, but Statement II is incorrect.
- (D) Statement I is incorrect, but Statement II is correct.

May/June 2018

15. Which of the following pairs correctly matches the type of conflict with its description?

- (A) Task Conflict - Develops over disagreements regarding personal tastes and working styles.
- (B) Value Conflict - Primarily relates to assignments given to employees and interpretation of facts.
- (C) Intra-individual Conflict - Disagreement between different groups regarding work-related policies.
- (D) Relationship Conflict - Arises from differences in personality, style, taste, and is over personal issues.

Oct/Nov 2016

16. Consider the following statements regarding the steps of the conflict resolution process:

- I. Probing questions like "How did this incident begin?" help find the source of the conflict.
- II. Looking beyond involves understanding that a minor issue from months before might be the real problem.
- III. During the suggestion phase, managers steer the discussion towards finger-pointing to isolate the guilty party.
- IV. The final step requires getting the two parties to accept one of the identified alternatives.

Which combination of statements is correct?

- (A) I, II, and IV only
- (B) I, II, and III only
- (C) II, III, and IV only

(D) I, III, and IV only

May/June 2014

17. Consider the following statements regarding Task Conflict:

- I. It is related to concrete issues such as employees' duties, expectations, and interpretation of facts.
- II. The best way to resolve it is to impose outcomes strictly on the involved parties to save time.
- III. It can cause good discussion within an organisation and help streamline productivity channels.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) I and III only
- (C) II and III only
- (D) I, II, and III

Oct/Nov 2007

18. In standard conflict management theory, how many primary styles of behaviour are presented in the managerial grid model?

- (A) Three
- (B) Four
- (C) Five
- (D) Six

May/June 2025

19. A bank proposes investing heavily in a highly profitable corporate project. However, the compliance head strongly opposes it, arguing that the corporation's environmental practices violate fundamental ethical norms, even if they meet legal minimums. The resulting dispute centres on deeply held ethical beliefs. This represents which type of conflict?

- (A) Value Conflict
- (B) Task Conflict
- (C) Approach-avoidance Conflict
- (D) Relationship Conflict

Oct/Nov 2019

20. Managers should take specific actions to minimise conflicts in an organisation. Which of the following is NOT one of those recommended actions?

- (A) Holding Regular Meetings
- (B) Establishing a Suggestion Box
- (C) Regular Reports

4. Styles including domination, compromise, and integration

- (A) P-4, Q-3, R-1, S-2
- (B) P-3, Q-4, R-2, S-1
- (C) P-4, Q-3, R-2, S-1
- (D) P-1, Q-2, R-3, S-4

Oct/Nov 2016

58. During a branch meeting, two officers constantly clash because Officer A prefers a meticulously structured daily routine, while Officer B prefers a spontaneous and flexible working style. Their disagreement is not about the banking targets but purely about how they interact and function personally in the workspace. Which type of conflict are they experiencing?

- (A) Task Conflict
- (B) Relationship Conflict
- (C) Role Conflict
- (D) Value Conflict

May/June 2014

59. Consider the following actions a manager might take to minimise conflicts:

- I. Regular Review of Job Descriptions
 - II. Establish Rapport and build Relationship with all subordinates
 - III. Stop holding regular management meetings to avoid arguments
 - IV. Mutual Development of Procedures
 - V. Training in interpersonal communication
- Which of the above statement(s) is/are correct?

- (A) I, II, III, and V only
- (B) I, II, IV, and V only
- (C) II, III, IV, and V only
- (D) I, II, III, IV, and V

Oct/Nov 2007

60. Intra-individual goal conflict takes three major forms. Which of the following pairs is INCORRECTLY matched?

- (A) Approach-approach conflict - Individual is motivated to approach two or more positive but mutually exclusive goals.
- (B) Approach-avoidance conflict - Individual is motivated to approach a goal but simultaneously motivated to avoid it.
- (C) Goal frustration conflict - Individual faces mutually exclusive goals that lack both positive and negative characteristics.

(D) Avoidance-avoidance conflict - Individual is motivated to avoid two or more negative but mutually exclusive goals.

May/June 2025

61. In a banking operations department, employees frequently argued over the correct sequence of steps for processing loan applications, as the legacy rulebook was vague. The manager gathered the team and asked them to share their views in writing to create a new, agreed-upon step-by-step processing manual. Which conflict minimisation action is the manager applying?

- (A) Suggestion Box
- (B) Mutual Development of Procedures
- (C) Training
- (D) Regular Review of Job Descriptions

Oct/Nov 2019

62. When a motivated drive is blocked before a person reaches a desired goal due to external or internal barriers, frustration occurs. Frustrated individuals may adopt defence mechanisms. Which of the following best describes the mechanism of "Fixation"?

- (A) Attacking the barrier physically or symbolically.
- (B) Backing away from the barrier to avoid stress.
- (C) The continuation of efforts to break the barrier.
- (D) The search for an entirely new goal.

May/June 2009

63. The following question consists of two statements, an Assertion (A) and a Reason (R). Select the correct option.

Assertion (A): It is advisable for a manager to involve a third party (a non-direct superior with access to the situation) when attempting to minimise conflicts.

Reason (R): No manager should avoid a conflict hoping it will go away; instead, describing specific actions they want the other party to take is beneficial.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

- (A) I, II, III, and IV only
- (B) I, II, IV, and V only
- (C) II, III, IV, and V only
- (D) I, III, IV, and V only

May/June 2020

- 27.** Consider the following factors as potential reasons for conflict in an organisation:
- I. Resistance to change
 - II. Work habits
 - III. Poor communication
 - IV. Personality clashes
 - V. Poor performance
- Which of the above statement(s) is/are correct?
- (A) I, II, III, and IV only
 - (B) I, III, IV, and V only
 - (C) II, III, IV, and V only
 - (D) I, II, III, IV, and V

Oct/Nov 2015

- 28.** When is negotiation considered highly useful in the context of conflict resolution?
- (A) When two individuals have completely different and unrelated objectives.
 - (B) When one individual seeks to use institutional power to control and intimidate the other party.
 - (C) When individuals share a similar objective but conflict on the method of reaching it.
 - (D) When labour unions decide to strike unconditionally without management interaction.

May/June 2013

- 29.** A traditional bank decides to implement a fully automated digital processing system. Senior clerks express immense fear of the new technology, doubting the management's ability to seamlessly transition. They exhibit disbelief and denial, frequently arguing with IT coordinators. What is the primary reason for this conflict?
- (A) Weak leadership
 - (B) Resistance to change
 - (C) Poor performance
 - (D) Poor work habits

Oct/Nov 2021

- 30.** A branch manager notices a highly dissatisfied premium client creating a scene regarding a perceived discrepancy in service charges. The

manager immediately invites the client to the cabin, listens to the concerns, and negotiates a waiver of the fee in exchange for the client committing to a new fixed deposit scheme. This scenario primarily exemplifies handling conflict negotiation in which situation?

- (A) Disagreements during collaboration
- (B) Compensation
- (C) Disputes between a business and the public
- (D) Conflicts between employees

May/June 2024

- 31.** Regarding common factors associated with organizational friction, which of the following is NOT usually categorized as a typical reason for conflict?
- (A) Economics (insufficient remuneration)
 - (B) Weak Leadership
 - (C) Power struggle
 - (D) Excess transparency at the management level

Oct/Nov 2008

- 32.** Conflict resolution sometimes requires two distinct approaches to reconcile each party's interests effectively. What are these two approaches?
- (A) Aggression-based and withdrawal-based approaches.
 - (B) Financial-based and psychological-based approaches.
 - (C) Avoidance-based and compliance-based approaches.
 - (D) Power-based and interest-based approaches.

May/June 2006

- 33.** A branch manager consistently ignores the operational difficulties faced by the cashiers and only listens to the head teller's version of events when disputes arise. The cashiers feel alienated because the manager acts incompletely and biasedly. This conflict is primarily driven by:
- (A) Power struggle
 - (B) Poor supervision
 - (C) Poor organisational structure
 - (D) Resistance to change

- (A) Incompetent supervisors who consistently play a biased role when resolving functional situations.
- (B) Insufficient remuneration leading to economic dissatisfaction among employees.
- (C) Incompatibility in behavioural preferences, such as attitudes, values, and perceptions.
- (D) When senior positions are needed for status and a “wrong” person is promoted.

May/June 2013

71. Which of the following situation(s) is an example of using power to control, intimidate, and force solutions, thereby adding grounds for future conflict?

- (A) Project teams discussing how to best utilize limited resources during a financial crisis.
- (B) Labour unions striking and management responding with immediate staff layoffs.
- (C) Supervisors finding a mutually acceptable rate for a new employee.
- (D) Businesses attempting to reconcile customer interests.

Oct/Nov 2021

72. Consider the following statements regarding the reasons for conflict:

- I. Status conflict occurs when everyone wants to be a leader and nobody wants to be a follower.
- II. Incongruence happens when an employee is required to do something that is beyond his/her liking or interests.

Choose the correct option:

- (A) Both Statement I and Statement II are correct.
- (B) Both Statement I and Statement II are incorrect.
- (C) Statement I is correct, but Statement II is incorrect.
- (D) Statement I is incorrect, but Statement II is correct.

May/June 2024

73. Match the conflict management skills (List I) with their corresponding actions (List II).

List I: (Management Skill)

- P. Effective communication Skills
- Q. Listening Skills
- R. Discussion
- S. Patience

List II: (Action)

- 1. Do not just follow rumour mills blindly; sit and discuss issues in an open forum.
- 2. Never ever shout; be specific and precise without using abusive languages.
- 3. Do not ever lose your temper, as it would only make the situation worse.
- 4. Engage in repeating back critical information and maintaining eye contact.

(A) P-2, Q-4, R-1, S-3

(B) P-4, Q-2, R-3, S-1

(C) P-2, Q-1, R-4, S-3

(D) P-1, Q-4, R-2, S-3

Oct/Nov 2008

74. The following question consists of two statements, an Assertion (A) and a Reason (R). Select the correct option.

Assertion (A): Conflict motivated by ego often turns into a “win/lose” situation.

Reason (R): In such situations, solutions are sought with high regard for mutual benefit, causing the “losers” to collaborate with the “winners”.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

75. Regarding the skills required for managing conflict, which of the following statements is INCORRECT?

(A) Active listening involves giving expert comments without waiting to hear the other side.

(B) To be impartial means you should never ignore anyone just because you do not know him.

(C) During a formal discussion, all participants must give their inputs and everyone has a right to express views.

(D) A positive attitude implies avoiding backbiting, as it only spoils relationships.

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the concerns of others. Therefore, the provided reasoning is inverted.

9. (C) Statement I is correct, but Statement II is incorrect.

Conflict is an inevitable internal discord caused by differences in ideas and values, making it impossible to eliminate entirely. While organizational training and background understanding can help manage it, they do not guarantee that conflicts will be completely avoided. Diverse perspectives and goals naturally lead to friction, so the focus remains on effective management rather than total eradication.

10. (B) Competing consists of a low degree of cooperation and a high degree of assertiveness. The competing strategy of conflict resolution involves a high degree of assertiveness and a low degree of cooperation. In this approach, an individual pursues their own concerns at the other person's expense. It is often characterized by a power-oriented mode where one uses whatever power seems appropriate to win their own position, such as rank or expertise.

11. (A) I, II, and III only

Various schools of thought interpret conflict differently. Traditionalists see it as harmful and avoidable, while human relations experts view it as a natural occurrence requiring an open approach. Integrationists consider conflict a positive force if managed well. However, suppressing or avoiding differing ideas is not recognized as the sole key to resolution, as it often leaves underlying issues unaddressed.

12. (C) Competing

Using aggressive tactics and leveraging hierarchical authority to secure resources while disregarding others' needs defines the competing approach. This style is characterized by a desire to win at all costs, prioritizing personal or departmental goals over collective harmony. It reflects high assertiveness and low cooperation, where power is used to force a solution that favors one party exclusively.

13. (B) Task Conflict

Task conflict involves disagreements regarding the content and goals of the work being

performed. It includes disputes over the allocation of resources, differences in procedural opinions, and interpretations of facts related to specific assignments. Unlike personal or emotional clashes, this type of conflict focuses on concrete issues that can lead to productive discussions and improved organizational efficiency if handled correctly.

14. (A) Both Statement I and Statement II are correct.

Conflict arises from various organizational factors, including status and incongruence. Status conflict occurs when multiple individuals aspire to leadership roles without a willingness to follow, leading to power struggles. Incongruence happens when employees are assigned tasks that clash with their personal interests or preferences. Both situations create friction that can disrupt productivity and require targeted managerial intervention to resolve.

15. (D) Relationship Conflict - Arises from differences in personality, style, taste, and is over personal issues.

Relationship conflict stems from personal differences such as personality, communication style, and individual tastes rather than work tasks. It often involves emotional tension and personal issues that can damage interpersonal bonds. Identifying this type is crucial because it requires different resolution strategies compared to task-related conflicts, which are based on concrete work details, resource sharing, or factual interpretations.

16. (A) I, II, and IV only

The conflict resolution process involves several systematic steps. Probing questions help identify the source, while looking beyond surface issues helps uncover historical roots. The final stage requires the parties to accept a mutually identified alternative. However, the suggestion phase should focus on collaborative problem-solving rather than finger-pointing, as assigning blame is counterproductive to reaching a sustainable and congenial agreement.

17. (B) I and III only

Task conflict relates to concrete work issues such as duties, expectations, and the interpretation of facts. When managed effectively, it can

ANSWERS

NODIA

1. (B) They fail to achieve a solution, meaning negotiation skills were insufficient.
In effective negotiation, the primary goal is to reach a sustainable agreement where all parties feel their interests are met. When outcomes result in one party losing or both parties suffering, it indicates a failure to find a congenial solution. Such results signify that the negotiation process and the skills employed were insufficient to achieve a productive resolution.
2. (C) The primary goal is to maintain the relationship rather than winning the argument. Conflict resolution prioritizes the long-term health of professional relationships over the immediate satisfaction of being right. In organizational settings, maintaining a collaborative environment is more valuable than winning a specific argument. Focusing on the relationship helps prevent resentment and ensures that future interactions remain productive and cooperative, which is essential for achieving broader team objectives.
3. (C) At least 25 per cent
Research into organizational dynamics reveals that conflict management is a significant part of a manager's daily routine. Industry estimates suggest that managers dedicate at least one-quarter of their professional time to addressing and resolving workplace disputes. This high percentage underscores the importance of developing strong conflict resolution skills as a core competency for effective leadership and administration.
4. (D) Holding on to past grudges impairs the ability to see the reality of the current situation. Focusing on the present is a critical principle in conflict resolution because dwelling on past grievances often obscures current issues. Holding onto historical grudges prevents individuals from viewing the immediate situation objectively and finding practical solutions. By concentrating on what is happening now, negotiators can address the actual problem at hand without being hindered by previous negative experiences.
5. (D) A clash between individuals due to differences in thought processes, attitudes, and requirements.
Conflict within an organization is fundamentally a clash between individuals or groups driven by differences in thought processes, attitudes, and personal requirements. It is an inevitable part of human interaction where diverse backgrounds and perspectives lead to varying interpretations of situations. Recognizing this nature allows managers to approach conflict as a manageable aspect of organizational life rather than failure.
6. (C) Focus on the past to assign blame.
To achieve positive results in conflict resolution, parties should avoid focusing on the past to assign blame. Effective strategies emphasize forgiveness, active listening, and the ability to agree to disagree when necessary. Dwelling on historical errors only increases defensiveness and prevents the development of forward-looking solutions. Instead, the focus should remain on current issues and constructive outcomes.
7. (B) Conflict is a sign of a poor relationship.
Contrary to common misconceptions, conflict is not necessarily a sign of a poor relationship. It is a universal phenomenon often associated with scarce resources and interference from others. While it involves opposition, it can also serve as an opportunity for growth and better understanding. Healthy relationships can still experience conflict, provided it is managed constructively to reach resolution.
8. (C) Assertion (A) is true, but Reason (R) is false.
The accommodating strategy in conflict management is characterized by high cooperation and low assertiveness, where one party prioritizes the other's needs. However, the definitions of assertiveness and cooperativeness are specific. Assertiveness refers to the attempt to satisfy one's own concerns, while cooperativeness refers to the attempt to satisfy

ways to prevent minor friction from escalating into disputes.

- 60.** (C) Goal frustration conflict - Individual faces mutually exclusive goals that lack both positive and negative characteristics.

The standard forms of intra-individual goal conflict are approach-approach, approach-avoidance, and avoidance-avoidance. Goal frustration conflict is not a recognized major form in this context. Frustration itself is a result of a blocked goal, not a specific type of goal conflict. The three standard forms describe the various ways positive and negative motivations interact when individuals face exclusive outcomes.

- 61.** (B) Mutual Development of Procedures

By gathering the team to share their views and jointly create a new processing manual, the manager is practicing the mutual development of procedures. This action reduces conflict by ensuring that all employees understand and agree upon the rules. Involving staff in the creation of guidelines minimizes future disputes regarding vague rules and fosters a sense of ownership and clarity.

- 62.** (C) The continuation of efforts to break the barrier.

Fixation is a defense mechanism where a frustrated individual continues to use the same unsuccessful methods to break through a barrier. Instead of trying new strategies or abandoning the goal, the person remains stuck in a cycle of repetitive efforts. This behavior often occurs when a person is unable to adapt to the obstacle and continues their attempts despite lack of progress.

- 63.** (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

It is often advisable to involve a third party, such as a neutral superior, to help resolve complex conflicts. Simultaneously, it is true that managers should never avoid conflict and should describe specific actions they want others to take. While both statements are correct management principles, the reason provided about not avoiding conflict does not

directly explain why involving a third party is beneficial.

- 64.** (D) Role conflict

Role conflict occurs when an individual faces incompatible expectations or requirements from the different roles they occupy. This specific situation, where someone plays several roles at once but lacks the time and resources to fulfill them all, is a classic example of role conflict. It creates stress and internal discord as the person struggles to meet the competing demands of their various positions.

- 65.** (B) Understanding the advantages of proposed solutions helps in discovering underlying needs. Determining underlying needs involves looking beyond the initial solutions proposed by parties to understand why they want them. Understanding the perceived advantages of a proposed solution helps a manager discover the actual needs being addressed. This is a powerful tool because focusing on needs rather than positions allows for more creative and flexible solutions that can satisfy all parties involved.

- 66.** (C) Inter-role conflict

Mr. Sharma is experiencing inter-role conflict because he is struggling to meet the requirements of two different roles he plays at the same time: branch manager and father. The year-end closing requires his presence at work, while the school competition requires his presence as a parent. These competing demands from separate roles create a conflict that is difficult to resolve simultaneously.

- 67.** (C) Statement I is correct, but Statement II is incorrect.

Monitoring actions through follow-up meetings is a standard and effective part of the conflict resolution process. However, it is not forbidden to use an outside facilitator if a conflict remains unresolved and disruptive. In fact, bringing in an expert or mediator is often recommended when internal efforts fail, as they can provide a neutral perspective and specialized skills to reach conclusion.

stimulate healthy discussion and improve productivity within an organization. Imposing outcomes strictly is not the best way to resolve it; instead, it should be addressed through collaborative methods that allow for diverse perspectives to be integrated into decisions.

18. (C) Five
Standard conflict management theory, particularly the Conflict Mode Instrument developed by Thomas and Kilmann, identifies five primary styles of behavior. These styles are determined by the intersection of two dimensions: assertiveness and cooperativeness. The five resulting strategies are competing, collaborating, compromising, avoiding, and accommodating, each representing a different balance between satisfying one's own concerns and the concerns of others.
19. (A) Value Conflict
When a dispute centers on deeply held ethical, moral, or political beliefs, it is classified as a value conflict. These conflicts are particularly challenging because they involve fundamental principles and identities rather than just tasks or procedures. Resolving such disagreements requires a high level of cognitive understanding and a focus on mutual respect for varying viewpoints to prevent lasting alienation.
20. (D) Avoiding conflicts and hoping they will go away
Managers should never ignore or avoid conflicts in the hope that they will resolve themselves. Proactive measures are necessary for maintaining a healthy workspace. Recommended actions include holding regular meetings, providing suggestion boxes, and requiring regular reports. These tools ensure open communication and early detection of issues, whereas avoidance typically allows minor disagreements to escalate into much larger problems.
21. (D) Approach-avoidance conflict
An approach-avoidance conflict occurs when a single goal has both positive and negative characteristics. In this scenario, the promotion and salary increase represent the positive aspects, while the harsh living conditions and relocation represent the negative aspects. The individual is simultaneously drawn toward

and repelled by the same objective, leading to significant internal discord and difficulty in the decision-making process.

22. (C) Suggestion Box - A mandatory tool exclusively for clients to register grievances against bank employees.
A suggestion box is not exclusively for clients nor is it a tool for grievances against employees. In conflict management, it serves as a mechanism for employees to provide feedback, raise concerns, and offer ideas to management. This helps identify internal friction points early. Restricting it to client use misinterprets its role in fostering internal organizational communication and transparency.
23. (B) P-3, Q-2, R-4, S-1
Frustration leads to various defense mechanisms. Aggression involves attacking a barrier physically or symbolically. Withdrawal is the act of backing away from the barrier. Fixation refers to the persistent continuation of efforts to break the barrier despite lack of success. Compromise involves searching for a new, attainable goal to replace the one that is currently blocked by obstacles or interference.
24. (B) I, III, and IV only
Framing an effective policy requires acknowledging the situation, defining the problem's impact, and determining underlying needs. It is important to find out why people want specific solutions. However, disallowing individuals from expressing feelings of anger is counterproductive; instead, emotions should be managed and understood as part of the resolution process to reach a truly sustainable and professional agreement.
25. (D) I, II, and III
Role conflict occurs in several forms within an organization. Person-role conflict arises when expectations clash with an individual's personality. Intra-role conflict stems from contradictory expectations regarding a single role. Inter-role conflict happens when an individual occupies multiple roles with competing requirements. Understanding these distinctions is essential for managers to address the root causes of employee stress and performance issues effectively.

individuals should be selective by picking their battles and maintain a willingness to forgive. These steps provide a comprehensive framework for de-escalating tension and reaching a functional agreement that preserves professional relationships and efficiency.

- 44.** (C) Relocating the involved employees to physically distinct job roles.

When workplace conflict between two employees becomes severe and disruptive, relocating them to different job roles or physical locations is often a necessary and effective step. This separation reduces daily friction and prevents the conflict from further impacting team productivity. It provides a practical solution that allows both individuals to continue working without the constant presence of the opposing party.

- 45.** (B) Pick your battles

The employee failed to apply the principle of picking their battles. By engaging in a fierce, time-consuming argument over a minor issue like an unreserved parking spot when other spots were available, the individual wasted energy on a trivial matter. Effective conflict management requires distinguishing between significant issues that require resolution and minor annoyances that are better left ignored or bypassed.

- 46.** (A) I and II only

Workplace conflict can immensely impede business operations, particularly in service organizations like banks. Since banks handle public money, managing conflict is a vital administrative role to ensure stability and trust. However, an executive's ability to handle conflict should not be excluded from performance indicators; rather, it is a key competency that should be assessed as part of professional leadership development.

- 47.** (D) P-2, Q-1, R-4, S-3

Conflict resolution approaches vary by goals. Avoiding involves ignoring the conflict. Accommodating means satisfying the other party's concerns at your own expense. Compromising involves finding a middle ground that partially satisfies everyone. Competing represents the attempt to satisfy one's own desires, often those of a manager, at the expense

of others. Each style reflects a different balance of assertiveness and cooperation.

- 48.** (D) Response to conflicts is based on an objective review of facts.

Conflict is characterized by opposition, complexity, and its unavoidable nature in human interactions. However, responses to conflict are frequently based on subjective perceptions, emotions, and interpretations rather than an objective review of facts. This subjectivity is often what makes resolution challenging, as parties may have different realities based on their personal attitudes, values, and past experiences within the organization.

- 49.** (B) Collaborating

Collaborating is a conflict resolution approach that involves a high degree of both assertiveness and cooperation. The objective is to work with the other party to find a solution that fully satisfies the concerns of everyone involved. Unlike compromising, which involves splitting the difference, collaboration seeks a creative win-win outcome where all underlying needs are met without requiring significant sacrifices.

- 50.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Integrationists perceive conflict as an inevitable and potentially helpful force within an organization. They believe that disputes provide a valuable avenue for understanding diverse opinions and offer opportunities for creativity, persuasion, and personal growth. By viewing conflict positively, they aim to harness it to improve decision-making and innovation, provided it is managed correctly rather than being suppressed or ignored.

- 51.** (A) Accommodating

The manager is using an accommodating strategy by prioritizing the officer's needs over their own. This approach involves high cooperation and low assertiveness, where one party yields to the other to maintain a relationship or ensure a specific outcome. By giving in to the demand to skip reporting, the manager satisfies the officer's concerns while neglecting their own operational preference.

creating a clear goal, such as reaching an acceptable compromise.

- 35.** (C) Prelude Phase, Triggering Phase, Initiation Phase, Differentiation Phase, Resolution Phase
The lifecycle of a conflict follows five distinct phases in order. It begins with the Prelude Phase, which sets the background. Then, the Triggering Phase involves an event that sparks the dispute. This is followed by the Initiation Phase, where arguments begin. The Differentiation Phase involves voicing differences, and finally, the Resolution Phase focuses on finding a conclusion or agreement.
- 36.** (D) Address the conflict, not the person
Officer B demonstrates the strategy of addressing the conflict rather than the person. By ignoring the personal insult regarding educational background and refocusing the conversation on the target allocation data, the officer keeps the discussion professional and task-oriented. This approach prevents the conflict from escalating into a personal feud and keeps the focus on resolving the actual business issue.
- 37.** (A) I, II, and III only
The first three phases of conflict involve the background, the spark, and the start of the argument. The Differentiation Phase is where parties voice their specific reasons for discord. However, the Resolution Phase is intended for finding a conclusion or compromise, not for continuing the fight indefinitely. Successful resolution aims for a sustainable agreement that addresses the needs of involved parties.
- 38.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
In negotiation, the objective is to achieve a win-win situation where both parties feel they have gained something valuable. This is considered the golden rule because it fosters long-term cooperation. Win-lose or lose-lose outcomes are unsuccessful as they fail to provide a congenial or lasting solution, often leading to recurring friction and a breakdown in professional relationships over time.

- 39.** (B) Differentiation Phase

During the differentiation phase of a conflict, individuals specifically voice their differences and clarify the reasons for the dispute. This phase is characterized by an open expression of opposing views and the identification of the underlying issues at hand. It is a critical stage where the details of the conflict become clear, allowing for better understanding before moving toward the resolution phase.

- 40.** (D) I, II, III, IV, and V

Successful conflict resolution requires a combination of interpersonal skills and strategic thinking. Key elements include effective communication, patience, and maintaining impartiality. Additionally, it is essential to address the conflict itself rather than the individual and to determine the Best Alternative to a Negotiated Agreement. These tools collectively enable managers to navigate disputes and reach productive, sustainable and professional agreements.

- 41.** (A) I and II only

The three-step formula involves listening, talking, and resolving. Active listening is crucial for determining the direction of the resolution, while open talking serves as the foundation for clear communication. However, the resolution step is not meant to be open-ended; its goal is to reach a definitive and mutually accepted conclusion to the dispute, ensuring that the issue is settled.

- 42.** (B) A struggle involving the perception of opposing incompatible goals, desires, demands, or needs.

A professional definition of conflict describes it as a struggle involving the perception of opposing incompatible goals, desires, demands, or needs. This definition highlights that conflict is often based on how individuals perceive a situation and their role within it. It encompasses the sense of interference or opposition that arises when one party's goals appear to be blocked.

- 43.** (D) I, II, III, IV, and V

The conflict resolution process includes several core principles: listening for feelings as well as words, prioritizing resolution over winning, and focusing on the present situation. Additionally,

Oct/Nov 2017

76. Which of the following accurately describes the Initiation Phase of conflict?
- (A) It involves all the factors which possibly cause a conflict among individuals, such as lack of coordination.
 - (B) The exact moment when a specific event occurs that sparks the conflict on its own volition.
 - (C) The phase where the conflict has already started, often marked by heated arguments.
 - (D) It is the phase where individuals reconcile, compromise, and explore options to resolve the conflict.

May/June 2008

77. Before entering a critical negotiation with a vendor regarding software licensing fees, the bank's IT procurement head calculates the exact cost and feasibility of switching to a different software provider if the current vendor refuses to lower their price. During the meeting, keeping this alternative in mind helps him negotiate confidently. Which strategy is the procurement head applying?
- (A) Set an objective
 - (B) Determine the 'Best Alternative to a Negotiated Agreement' (BATNA)
 - (C) Impartiality
 - (D) Find shared interests

Oct/Nov 2013

78. Two loan officers with vastly different cultural backgrounds have never gotten along well. During a formal presentation, one officer stands up and aggressively criticises the other for the lack of relevant content. According to the phases of conflict, the act of standing up and criticising represents which phase?
- (A) Prelude Phase
 - (B) Differentiation Phase
 - (C) Triggering Phase
 - (D) Resolution Phase

May/June 2015

79. Consider the following statements regarding the skill of "Find shared interests" in negotiations:
- I. It is crucial to identify needs and desirable outcomes before negotiations begin.
 - II. When conflict arises, it is important to identify other negotiators' needs.

III. The issue should be redefined so only one side achieves a win.

IV. Finding common ground helps develop a win-win situation.

Which combination of statements is correct?

- (A) I, II, and IV only
- (B) I, II, and III only
- (C) II, III, and IV only
- (D) I, III, and IV only

Oct/Nov 2012

80. What is the easiest three-step formula identified for resolving a conflict?
- (A) Ignore, Talk, Decide
 - (B) Discuss, Debate, Compromise
 - (C) Listen, Argue, Agree
 - (D) Listen, Talk, Resolve

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- 52.** (D) Conflicts are an opportunity for growth.

This scenario illustrates that conflicts can serve as an opportunity for growth. By confronting resource allocation issues openly and negotiating a solution, the team strengthened their mutual trust and improved their ability to handle future challenges. Rather than being purely destructive, this type of conflict acted as a catalyst for better communication and long-term organizational development through constructive and collaborative resolution.

- 53.** (B) Find out the source of the conflict, Look beyond, Take suggestions for solution, Identify acceptable solutions, Final agreement

The correct sequence for resolving conflict begins with identifying the source of the dispute. Next, parties should look beyond surface issues to deeper causes. After understanding the problem, they should solicit suggestions for solutions and then identify those that are mutually acceptable. The process concludes with a final agreement that outlines specific actions and timeframes to ensure a lasting resolution.

- 54.** (C) Aim for a cognitive understanding of the opposing point of view without emotional connection.

When dealing with disputes involving fundamental values, the recommended approach is to aim for a cognitive understanding of the opposing viewpoint. Value conflicts are deeply personal and difficult to resolve through persuasion or directives. By focusing on understanding why the other party holds their beliefs without requiring an emotional connection, managers can foster respect and reduce defensiveness in the workplace.

- 55.** (B) In Step 5, the manager must write up a legally binding contract with specified actions and timeframes for every resolved conflict.

While the final step of conflict resolution involves reaching a mutually accepted agreement, it does not strictly require a legally binding contract for every internal dispute. Conveying the solution politely and outlining actions may be sufficient. The process focuses on managerial agreement and behavioral change rather than legal formalities, which are

typically reserved for more formal disciplinary or legal proceedings.

- 56.** (A) It is easily solved through basic communication and internal employee debates. Relationship conflict is often difficult to solve because it involves deep-seated personal differences in personality, style, and taste. Unlike task conflict, it is not easily resolved through simple communication or logical debates. These personal clashes can be long-lasting and significantly damage employee commitment and productivity, requiring nuanced management strategies that address the emotional and interpersonal aspects of the disagreement.

- 57.** (A) P-4, Q-3, R-1, S-2

Conflict management involves different frameworks. One category includes domination, compromise, and integration. Another involves five styles like forcing and problem-solving. The fundamental goal is to minimize affective conflicts. Finally, task-specific strategies are considered unordered and require careful attention. These various categories provide a structured approach for managers to choose the most appropriate style for different types of organizational friction.

- 58.** (B) Relationship Conflict

The clash between the two officers is a relationship conflict because it stems from differences in personal working styles and preferences rather than organizational goals or tasks. They are not disagreeing about banking targets but about how they interact and function personally. This type of conflict is rooted in personality and style, making it a matter of interpersonal friction.

- 59.** (B) I, II, IV, and V only

To minimize conflict, managers should regularly review job descriptions, build rapport with subordinates, and develop procedures mutually. Training in interpersonal communication is also highly beneficial. However, stopping regular management meetings is counterproductive; meetings are essential for communication and addressing issues early. Regular engagement and clear procedures are the most effective

26. (A) I, II, III, and IV only

Seeking common agreement involves identifying shared understanding of the problem and the procedures to follow. It also requires acknowledging worst fears and implementing small changes to provide an initial experience of success. Terminating the opposing party is not a collaborative area for agreement; rather, it represents a failure of the resolution process and a shift toward punitive measures.

27. (D) I, II, III, IV, and V

Conflict in an organization can stem from multiple interconnected factors. These include resistance to change, differing work habits, and poor communication. Additionally, personality clashes and poor performance can create friction between team members or between staff and management. Recognizing this broad range of potential causes allows for more comprehensive strategies to minimize discord and maintain a productive working environment.

28. (C) When individuals share a similar objective but conflict on the method of reaching it.

Negotiation is most effective when parties share a similar overarching objective but disagree on the specific methods or procedures to achieve it. In these situations, there is common ground to build upon, and negotiation serves to bridge the gap between different tactical approaches. This collaborative process allows for the development of a solution that satisfies the interests of others.

29. (B) Resistance to change

The conflict described is primarily driven by resistance to change. When employees face new technology or automated systems, fear of the unknown often leads to disbelief, denial, and arguments. This resistance stems from a perceived threat to their established routines or job security. Effective management requires addressing these fears through communication and training rather than viewing friction as poor performance.

30. (C) Disputes between a business and the public

The scenario involving a branch manager and a premium client is a classic example of handling disputes between a business and the public. The manager uses negotiation to resolve

a service charge discrepancy and retain the customer's loyalty. By listening to concerns and offering a compromise, the manager successfully navigates an external conflict to reach a mutually beneficial business outcome.

31. (D) Excess transparency at the management level

Typical reasons for organizational conflict include economic dissatisfaction, weak leadership, and power struggles. However, transparency is generally considered a tool to reduce conflict rather than cause it. Excess transparency helps clarify expectations and reduces the uncertainty and rumors that often lead to disputes. Therefore, it is not categorized as a typical cause of friction within a professional workplace setting.

32. (D) Power-based and interest-based approaches.

Conflict resolution often involves choosing between power-based and interest-based approaches. A power-based approach relies on authority or coercion to force a solution, which can lead to future resentment. In contrast, an interest-based approach focuses on underlying needs and mutual benefits to reach a sustainable agreement. Balancing these approaches is key to managing diverse organizational disputes effectively while maintaining relationships.

33. (B) Poor supervision

This conflict is driven by poor supervision, specifically the manager's failure to remain impartial and listen to all parties involved. By acting on biased information and ignoring the operational difficulties of some subordinates, the supervisor creates a sense of alienation and unfairness. Effective conflict management requires a leader to engage with all staff members fairly to ensure a balanced perspective.

34. (C) P-4, Q-3, R-1, S-2

Effective conflict management involves several key strategies. Being impartial means correcting even friends when they are wrong. The strategy of never criticizing involves addressing errors without hurting the other person's sentiments. Having a positive attitude means accepting your own mistakes instead of playing the blame game. Finally, setting an objective involves

- 68.** (D) Being extra diligent in work and repeatedly rechecking files cannot become a cause for conflict due to its positive nature.
While being extra diligent is generally positive, it can indeed become a cause for conflict if it leads to friction with colleagues. For example, a person who repeatedly rechecks files might slow down a team's workflow or be perceived as critical of others' work. Even positive traits can cause conflict if they are incompatible with the work habits of other team members.
- 69.** (D) I, II, and III
Conflict negotiation is a versatile tool used in many organizational contexts. This includes resolving disputes between employees over work quality, handling compensation issues like salary or vendor contracts, and managing external disputes with dissatisfied customers. In each of these cases, negotiation helps the parties reach a mutually acceptable agreement that addresses their specific needs while maintaining professional or business relationships.
- 70.** (C) Incompatibility in behavioural preferences, such as attitudes, values, and perceptions.
A personality clash is typically triggered by incompatibility in behavioural preferences, including differences in attitudes, values, and perceptions. When individuals with very different ways of interacting or viewing the world must work together, friction often arises. These clashes are not about the work itself but about the personal differences that make it difficult for the individuals to collaborate comfortably or effectively.
- 71.** (B) Labour unions striking and management responding with immediate staff layoffs.
The scenario where management responds to a labor union strike with immediate staff layoffs is a clear example of using power to control and force a solution. This approach relies on coercion and authority rather than negotiation or mutual understanding. Such power-based tactics often lead to increased resentment and provide the grounds for future, more intense conflicts between management and staff.
- 72.** (A) Both Statement I and Statement II are correct.
Conflict often stems from structural and personal factors. Status conflict happens when multiple people desire leadership roles, leading to a too many chiefs situation. Incongruence occurs when an employee's assigned tasks do not align with their personal interests or liking. Both scenarios create significant friction within a team and require proactive management to ensure that roles and tasks are assigned appropriately.
- 73.** (A) P-2, Q-4, R-1, S-3
Effective communication involves being specific without using abusive language. Listening skills are demonstrated by repeating critical information and maintaining eye contact. Discussion means addressing issues in an open forum rather than following rumors. Patience requires maintaining one's temper to avoid worsening the situation. Together, these skills and actions form a comprehensive approach to de-escalating tension and finding productive, lasting resolutions.
- 74.** (C) Assertion (A) is true, but Reason (R) is false.
Conflicts motivated by ego often turn into win-lose situations because the parties are more concerned with being right than finding a mutual benefit. In such cases, there is usually a high disregard for the other party's needs, which prevents collaboration. The losers in these scenarios typically feel resentful rather than cooperative, making the reasoning that they would collaborate false.
- 75.** (A) Active listening involves giving expert comments without waiting to hear the other side.
Active listening does not involve giving expert comments before hearing the other side. Instead, it requires focusing entirely on the speaker, understanding their perspective, and reflecting back what was heard without immediate judgment or interruption. Giving expert comments prematurely is a barrier to effective communication and can prevent the listener from truly understanding the underlying causes of the dispute.

(D) I, II, and III

May/June 2006

- 33.** Match the items in List I with their corresponding descriptions in List II.

List I: (HR Database Components)

- P. Personnel Manager module
- Q. Employee Self Service module
- R. Traditional HR data sets
- S. Non-traditional HR data sources

List II: (Descriptions)

- 1. Salary, allowances, increments, and leave records.
- 2. Scanning social media data and analyzing email content.
- 3. Designed to be accessed by HR or management staff.
- 4. Dedicated to allowing staff to contribute to their own HR admin.

- (A) P-3, Q-4, R-1, S-2
- (B) P-4, Q-3, R-2, S-1
- (C) P-1, Q-2, R-3, S-4
- (D) P-2, Q-1, R-4, S-3

Oct/Nov 2017

- 34.** Consider the following emerging trends in e-Learning:

- I. Artificial Intelligence (AI) technologies like Expert/Knowledge-based systems.
- II. Speech and natural language understanding interfaces.
- III. Complete elimination of all multimedia and interactive video discs.
- IV. Image processing, animation software, and video conferencing simulating real-life situations.

Which combination of the above statements is correct?

- (A) I, II, and III
- (B) I, II, and IV
- (C) II, III, and IV
- (D) I, III, and IV

May/June 2008

- 35.** Consider the following statements:

- I. There is a myth that IT has diluted the importance of Human Resources in organizations.
- II. Computerization has completely replaced the strategic decision-making abilities of human beings.

Which of the above statement(s) is/are

correct?

- (A) Only I
- (B) Only II
- (C) Both I and II
- (D) Neither I nor II

Oct/Nov 2013

- 36.** Consider the following identified benefits of Effective Knowledge Management:

- I. Lower Costs by relying less on third-party training programs.
- II. Improved Decision-making Power.
- III. Easy to Find Information using metadata and templates.
- IV. Preventing Brain Drain by capturing information in the system.
- V. Increasing repetition of the same task to build employee endurance.

Which combination of the above statements is correct?

- (A) I, II, III, and IV
- (B) II, III, IV, and V
- (C) I, III, IV, and V
- (D) I, II, III, IV, and V

May/June 2015

- 37.** Identify the correct sequence for the first four steps of implementing an effective Knowledge Management Programme.

- (A) Prepare for change → Establish objectives → Define high-level Process → Define Technology needs
- (B) Establish objectives → Prepare for change → Define high-level Process → Define Technology needs
- (C) Define high-level Process → Define Technology needs → Establish objectives → Prepare for change
- (D) Establish objectives → Define Technology needs → Prepare for change → Define high-level Process

Oct/Nov 2012

- 38.** Consider the following impact of Information Technology on organizational structure and workforce:

- I. Physical and psychological settings of the workplace will remain identical to traditional ones.
- II. The employees would basically be knowledge workers and quite individualistic in their approach.

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CHAPTER 16

HRM and Information Technology

May/June 2016

1. The global knowledge management market is projected to expand at what Compound Annual Growth Rate (CAGR) from 2016 to 2025?
(A) More than 15%
(B) More than 20.4%
(C) More than 25%
(D) More than 22%

Oct/Nov 2009

2. Which of the following statements about the benefits of Effective Knowledge Management is incorrect?
(A) It cuts down on the costs of centralized Learning and Development and lowers reliance on third-party training.
(B) It assists in tracking all ideas, documents, and data so that a comparable prerequisite emerges for future users.
(C) It ensures that collective knowledge is lost when competent employees join other firms, causing a brain drain.
(D) It stimulates growth and innovation by making information available through viable knowledge sharing methods.

May/June 2023

3. What does Knowledge Management primarily refer to?
(A) The process of sorting, developing, and retrieving employee numerical data such as schedule or identification numbers.
(B) The process of evaluating HR practices and performance through systematic data collection and internal auditing.
(C) The process of creating, storing, distributing, and pooling knowledge for effective and efficient use among employees.
(D) The process of applying mathematical algorithms to historical records to automate routine business decision processes.

Oct/Nov 2018

4. Which of the following is NOT a benefit of Big Data Analytics?
(A) Faster, better decision making by analyzing a large variety of sources and historical data points.
(B) Cost reduction and operational efficiency through flexible data processing and scalable storage tools.
(C) Complete elimination of human decision-making in all strategic banking operations and executive leadership.
(D) Improved data-driven go-to-market strategies by gauging customer needs and identifying potential market risks.

May/June 2007

5. How do HR analytics conceptually differ from HR metrics?
(A) HR analytics measure data such as turnover rates and sick days, while HR metrics interpret data to gauge engagement.
(B) HR metrics track historical employee data, while HR analytics interpret data to recognize trends and provide insights.
(C) HR metrics are used by business leaders to drive automated decisions, whereas HR analytics are used for payroll.
(D) There is no conceptual difference; the terms are used synonymously in modern organizations for data management.

Oct/Nov 2025

6. What is the primary focus of Relational e-HRM?
(A) Executing administrative functions like payroll, tax documentation, and basic employee time tracking.
(B) Sharing data to support business processes like recruitment and maintaining virtual employee relationships.
(C) Formulating corporate strategy and managing large-scale organizational re-orientation and restructuring.

- (D) Conducting compliance audits to ensure adherence to statutory government requirements and legal safety laws.

May/June 2012

7. What is the definition of Human Resource Information System (HRIS)?
- (A) A localized software module dedicated to allowing staff to contribute to their own administrative tasks.
- (B) An integrated system used to gather, store, and analyze information regarding an organization's human resources.
- (C) A suite of digital tools used exclusively for candidate recruiting, workforce tracking, and payroll management.
- (D) A long-term strategic exercise primarily concerned with knowledge management and organizational re-orientation.

Oct/Nov 2014

8. What are the three defining properties or dimensions of big data introduced by the 3Vs model?
- (A) Visibility, Variability, and Verification
- (B) Volume, Variety, and Velocity
- (C) Validity, Value, and Volatility
- (D) Verification, Volume, and Value

May/June 2019

9. Which of the following is NOT an advantage of Human Resource Information System (HRIS) implementation?
- (A) Facilitating timely and accurate decision making in areas like promotion and transfer.
- (B) Decreasing competitiveness by complicating human resource processes and functions.
- (C) Supplying data and submitting returns to government and statutory agencies with ease.
- (D) Providing a comprehensive information picture as a single, integrated data base.

Oct/Nov 2006

10. How do the introduction of Information Technology physically and psychologically modify the organizational structure?
- (A) It creates highly structured, multi-layered hierarchical power centers.
- (B) It enforces a traditional physical office

environment due to the necessity of hardware installations.

- (C) It leads to flatter and leaner organizations where individuals function largely as knowledge workers.
- (D) It centralizes decision-making exclusively to the top management executives.

May/June 2021

11. What is the ultimate goal of human resources analytics?
- (A) To provide insights for effectively managing employees so that organizational business goals can be reached efficiently.
- (B) To measure standard operational metrics such as employee sick days and turnover without predicting future needs.
- (C) To track the daily web browsing history of employees for disciplinary actions and monitoring productivity.
- (D) To store employee data in multiple formats across disparate locations for redundancy and disaster recovery.

Oct/Nov 2010

12. In the context of business, knowledge is proving to be to the twenty-first century what the railroad was to which of the following?
- (A) Twentieth century manufacturing
- (B) Eighteenth century trade
- (C) Nineteenth century enterprise
- (D) Twenty-first century information economy

May/June 2005

13. Which of the following is NOT a point to determine whether a company could benefit from a HRMS platform?
- (A) The office is situated in one location with centralized managerial control and zero employee turnover.
- (B) The HR department is overworked and does not have sufficient time to perform all of its necessary daily tasks.
- (C) The company is losing business and money due to significant HR data errors or legal compliance mistakes.
- (D) The employees have no responsibility or opportunity to manage their own performance appraisal and records.

Oct/Nov 2022

14. Which of the following statements accurately describes the dual responsibility of the HRM function in responding to the information age?
- (A) It involves restricting access to strategic data and maintaining traditional beliefs across the entire organization.
 - (B) It involves eliminating all physical offices and replacing human decision-making with automated Expert Systems.
 - (C) It involves transforming organizational mindsets to adopt technology and applying IT to the HRM function itself.
 - (D) It involves focusing exclusively on routine administrative tasks while line managers handle strategic IT changes.

May/June 2018

15. Why is the average Human Resource team often considered to be “sitting on a data gold mine”?
- (A) Because they possess physical assets and intellectual property that hold high monetary value for the firm.
 - (B) Because they have exclusive authority to sell employee data to external marketing agencies for profit.
 - (C) Because they control the financial investments and compensation budgets used for organizational expansion.
 - (D) Because they collect data on recruitment, training, and productivity that can be used to optimize value.

Oct/Nov 2016

16. How is e-HRM defined?
- (A) Technology-based planning and application for networking actors in their shared performance of HR activities.
 - (B) The systematic devolution of HR operations to management and employees through dedicated intranet communication channels.
 - (C) The strategic integration of all HR systems using web-based technologies to streamline administrative functions.
 - (D) The utilization of internet platforms to facilitate complex training and development programmes for the global workforce.

May/June 2014

17. Augmented Reality (AR) is increasingly being used to give a realistic feel and experience to employees. Which of the following scenarios is NOT a typical application of AR?
- (A) Simulating an oil spill setup where environmental workers handle a disaster through a fully immersive headset.
 - (B) Providing a 360-degree view of sensitive and heavy-duty equipment for maintenance and safety inspections.
 - (C) Speeding up the loading and unloading operations of cargo by providing realistic projections to the deck crew.
 - (D) Providing projections of human body parts during surgeries to assist medical professionals with precision.

Oct/Nov 2007

18. In the context of IT-based training programs, what does VILT stand for?
- (A) Virtual Instructor-Led Training
 - (B) Visual Interactive Learning Technology
 - (C) Virtual Internet-Linked Teaching
 - (D) Visual Instructor-Learning Tool

May/June 2025

19. Which of the following is NOT listed as a disadvantage of e-Learning?
- (A) It requires greater self-discipline and commitment by the learner to complete the assigned modules.
 - (B) It is relatively inflexible depending on a pre-produced programme that cannot be changed in real-time.
 - (C) It may induce a sense of isolation in the learner due to the lack of social interaction with peers.
 - (D) It provides high-level interaction with immediate personal reinforcement from a physically present trainer.

Oct/Nov 2019

20. Which of the following accurately describes Operational e-HRM?
- (A) It relates to administrative functions of the HR division, focusing on tasks like payroll and employee data.
 - (B) It is concerned with supporting business processes like training, recruitment, and organizational selection.
 - (C) It revolves around strategic HR exercises

- 76.** (C) The phase where the conflict has already started, often marked by heated arguments.

The initiation phase marks the point where the conflict has already begun and is actively manifesting. It is often characterized by the first heated arguments or open disagreements between the parties. This phase follows the triggering event and is the stage where the discord becomes apparent to those involved and often to those around them in the organizational environment.

- 77.** (B) Determine the 'Best Alternative to a Negotiated Agreement' (BATNA)

The procurement head is determining the Best Alternative to a Negotiated Agreement. By calculating the cost of switching to a different provider, he knows exactly what his options are if the negotiation fails. This knowledge provides leverage and confidence, allowing him to negotiate more effectively because he is not entirely dependent on reaching an agreement with the current software vendor.

- 78.** (C) Triggering Phase

According to the phases of conflict, the act of standing up and aggressively criticizing the other officer represents the triggering phase. This specific event sparks the conflict and moves it from the background into an active state. The triggering phase is the moment when a specific action or statement causes the underlying tension to explode into a visible and direct dispute.

- 79.** (A) I, II, and IV only

Identifying needs and desirable outcomes before and during negotiation is essential for finding shared interests. This common ground helps in developing a win-win situation where both parties benefit. However, redefining the issue so only one side wins is contrary to this goal; the aim of finding shared interests is to ensure mutual satisfaction rather than a one-sided victory.

- 80.** (D) Listen, Talk, Resolve

The easiest and most effective three-step formula for resolving conflict is to listen, talk, and resolve. This process begins with active listening to understand all perspectives, followed by open and clear talking to discuss the issues.

Finally, the resolve step involves reaching a mutually accepted agreement that settles the dispute. This simple framework provides a clear path for managing friction.

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in the global market.

- (C) Replacing all human resources with Expert Systems and Decision Support Systems to maximize efficiency.
- (D) Ensuring that all employees operate exclusively from home workstations without any physical office presence.

Oct/Nov 2015

28. What is a key conceptual difference between a Human Resource Information System (HRIS) and a Human Resource Management System (HRMS)?

- (A) An HRMS handles both IT and HR management technology, including qualitative data alongside standard HRIS data.
- (B) A HRIS deals only with non-quantitative information, whereas a HRMS handles complex scheduling and payroll.
- (C) A HRMS is designed exclusively for numerical data tracking, whereas a HRIS handles qualitative performance reviews.
- (D) A HRIS is a newer term that has replaced HRMS to reflect the shift towards cloud-based computing and storage.

May/June 2013

29. All of the following observations demonstrate the tremendous scope to use IT in HRM functions, EXCEPT:

- (A) Updating data could be done partially by different individuals from different locations.
- (B) Decisions related to HR need to be embedded in databases to achieve objectivity and consistency.
- (C) The database related to an employee is becoming narrow-based, focusing solely on traditional salary data.
- (D) To ensure adherence to statutory requirements, maintaining a comprehensive database is needed.

Oct/Nov 2021

30. Which of the following is a recommended tip for identifying the right HRMS for an industry and organization?

- (A) Assume that a “one size fits all” system will adequately cover all organizational structures and unique needs.
- (B) Focus solely on the cost of the software

without considering the vendor’s customer service and ethics.

- (C) Delegate the software selection entirely to the IT department without involving HR professionals in the process.
- (D) Understand the basic HRMS features and how they address compliance and challenges in a growing workforce.

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May/June 2024

31. Match the core Knowledge Management components in List I with their objectives in List II.

List I: (KM Components)

- P. People
- Q. Processes
- R. Technology
- S. Structure

List II: (Objectives)

1. Include best practices and governance for identification and dissemination of knowledge.
2. Transform to facilitate and encourage cross-discipline awareness and expertise.
3. Enhance how tools and automation are configured and used to enable knowledge management.
4. Increase the ability of individuals within the organization to influence others with their knowledge.

- (A) P-4, Q-1, R-3, S-2
- (B) P-1, Q-2, R-4, S-3
- (C) P-3, Q-4, R-2, S-1
- (D) P-2, Q-3, R-1, S-4

Oct/Nov 2008

32. Consider the following statements regarding Transformational e-HRM:

- I. It deals with routine administrative tasks like maintaining employee personal data.
 - II. It is concerned with strategic HR exercises such as knowledge management and strategic re-orientation.
 - III. It has the potential to develop efficiency and permit HR to become a strategic partner in achieving organizational goals.
- Which of the above statement(s) is/are correct?

- (A) I and II
- (B) II and III
- (C) I and III

Oct/Nov 2009

44. Consider the following statements regarding the maintenance of HRIS databases:
- I. Static data such as name and date of birth require frequent and continuous updating in the master file.
 - II. Software-supported access control measures allow maintaining confidentiality by assigning or restricting permissions to selected persons.
- Which of the above statement(s) is/are correct?
- (A) Only I
 - (B) Only II
 - (C) Both I and II
 - (D) Neither I nor II

May/June 2023

45. Consider the following statements regarding the differences and features of HRMS and HRIS:
- I. HRIS is a type of HRMS.
 - II. Re-branding by companies has worked to make the software titles generally indistinguishable.
 - III. HRIS typically tracks numerical data, schedules, and accounting functions.
 - IV. HRMS deals with non-quantitative information surrounding employees and applicants in addition to HRIS data.
 - V. Both HRMS and HRIS completely exclude payroll management and benefit administration.
- Which combination of the above statements is correct?
- (A) I, II, III, and IV
 - (B) II, III, IV, and V
 - (C) I, III, IV, and V
 - (D) I, II, III, IV, and V

Oct/Nov 2018

46. Identify the correct sequence for the final four steps of implementing an effective Knowledge Management Programme.
- (A) Assess Present status of KM → Draw an Implementation Plan → Implementation stage → Monitor & Measure the KM Programme
 - (B) Draw an Implementation Plan → Assess Present status of KM → Monitor & Measure the KM Programme → Implementation stage

- (C) Assess Present status of KM → Implementation stage → Draw an Implementation Plan → Monitor & Measure the KM Programme
- (D) Implementation stage → Assess Present status of KM → Draw an Implementation Plan → Monitor & Measure the KM Programme

May/June 2007

47. When assessing the status of Knowledge Management (KM) in an organization, which of the following core components should the assessment cover?
- I. People
 - II. Processes
 - III. Technology
 - IV. Culture
- Which combination of the above statements is correct?
- (A) I, II, and III
 - (B) I, III, and IV
 - (C) II, III, and IV
 - (D) I, II, III, and IV

Oct/Nov 2025

48. Which of the following pairs concerning software tools and their functions is correctly matched?
- (A) Data Mining - Creates hierarchical structures for manual physical filing and archiving of employee records.
 - (B) R programming language - Handles unstructured data with capabilities to extract and analyse large data sets.
 - (C) Decision Support System (DSS) - Automatically terminates employees based on biometric attendance violations.
 - (D) Expert Systems - Limits the organization's ability to take human-like decisions to ensure slower processing.

May/June 2012

49. Consider the following statements regarding the advantages of e-Learning:
- I. It enables the learner to study at their convenient time, place, and pace.
 - II. It requires expensive hardware and software, making it universally cost-prohibitive.
 - III. It can offer high-level interaction with immediate feedback and simulate real-life

III. Flatter and leaner organizations are on the anvil, modifying structures and reducing layers.

Which of the above statement(s) is/are correct?

- (A) I and II
- (B) II and III
- (C) I and III
- (D) I, II, and III

May/June 2011

39. Consider the following functions or modules assisted by HRMS systems:

- I. Managing payroll and benefits administration.
- II. Gathering, storing, and accessing employee information.
- III. Keeping attendance records and tracking absenteeism.
- IV. Designing and manufacturing the company's core physical products.

Which combination of the above statements is correct?

- (A) I, II, and III
- (B) I, III, and IV
- (C) II, III, and IV
- (D) I, II, III, and IV

Oct/Nov 2020

40. Which of the following pairs of e-HRM activities is correctly matched with its description?

- (A) e-Recruitment - Facilitating online modules of training for the global workforce irrespective of locations.
- (B) e-Compensation - Evaluating an individual's complete working record using various computer monitoring tools.
- (C) e-Learning - Hiring candidates using the internet and uploading recruitment information on public websites.
- (D) e-Selection - Utilizing procedural steps and assessment tools to utilize human capital at a reduced cost.

May/June 2022

41. Consider the following sources driving Big Data, making it more complex than traditional data:

- I. Artificial Intelligence (AI).
- II. Mobile devices.
- III. Social media.
- IV. The Internet of Things (IoT).

V. Sensors, video/audio, networks, and log files.

Which combination of the above statements is correct?

- (A) I, II, III, and IV
- (B) II, III, IV, and V
- (C) I, III, IV, and V
- (D) I, II, III, IV, and V

Oct/Nov 2023

42. Match the types of e-HRM in List I with their core focus areas in List II.

List I: (e-HRM Types)

- P. Operational e-HRM
- Q. Relational e-HRM
- R. Transformational e-HRM
- S. E-HRM in essence

List II: (Focus Areas)

- 1. Knowledge management and strategic re-orientation.
- 2. Administrative functions like payroll and personal data.
- 3. Devolution of HR operations to management and employees via web-technology.
- 4. Supporting business processes like training, selection, and building virtual relationships.

- (A) P-1, Q-4, R-2, S-3
- (B) P-2, Q-4, R-1, S-3
- (C) P-4, Q-2, R-3, S-1
- (D) P-3, Q-1, R-4, S-2

May/June 2016

43. Consider the following statements about tools used in HR database maintenance:

- I. Data Mining tools actively prompt the decision-maker to use data from time to time.
- II. Decision Support Systems (DSS) and Expert Systems assist in organizing, analyzing, and querying data.
- III. Technology prohibits having partial access to sections of data, requiring all employees to see all records.

Which of the above statement(s) is/are correct?

- (A) I and II
- (B) II and III
- (C) I and III
- (D) I, II, and III

such as knowledge management and overall strategic re-orientation.

- (D) It focuses on building virtual relationships among employees so they remain constantly associated and social.

May/June 2009

21. Why is a research orientation deemed an absolute necessity in HRM for future organizations?
- (A) To justify the high cost of the HR department's administrative expenditures and physical infrastructure.
- (B) To ensure that the HR department maintains a status quo in an ever-changing external business environment.
- (C) To evaluate HR practices, feel the pulse of the workforce, and identify issues requiring policy revision.
- (D) To legally mandate the termination of surplus employees due to technological automation and AI integration.

Oct/Nov 2011

22. What is identified as the major barrier to the success of Human Resource Information System (HRIS)?
- (A) The complexity of employee data
- (B) The lack of management commitment
- (C) The inability of individuals to change their thinking
- (D) The high cost of hardware maintenance

May/June 2010

23. Which of the following distinguishes Virtual Reality (VR) from Augmented Reality (AR) in employee training programs?
- (A) VR superimposes digital content into a real-life environment, while AR requires a specific headset for immersion.
- (B) VR is used exclusively to provide 360-degree views of heavy-duty equipment in real-life settings for technicians.
- (C) AR restricts the user from interacting with their physical surroundings, whereas VR enhances the real environment.
- (D) VR allows users to immerse themselves in a fully simulated environment to safely experience high-risk scenarios.

Oct/Nov 2024

24. The assessment of an effective knowledge management program should cover five core components. Which of the following is NOT one of these core components?
- (A) People
- (B) Processes
- (C) Culture
- (D) Profitability

May/June 2017

25. Which of the following statements regarding resistance to IT implementation is incorrect?
- (A) Resistance can be due to the inability of individuals to change their thinking.
- (B) Moving to a future organization implies change, and there is no possibility that this change will be resisted by the existing workforce.
- (C) Anxieties, implicit loss of power, and fear of the unknown can operate at a subconscious level leading to resistance.
- (D) The mind could be blind to the opportunities of improvements and the possibility of creating multiple solutions by playing with data.

Oct/Nov 2005

26. How is Big Data defined in the context of analytics?
- (A) Data sets that are strictly structured and pre-designed for traditional relational databases and internal reporting.
- (B) Data sets specifically originating from internal corporate logs, financial records, and transactional applications.
- (C) Data sets exclusively utilized for monitoring employee performance and standard compensation structures over time.
- (D) Data sets too large or complex for traditional databases to capture, manage, and process with low latency.

May/June 2020

27. What is the most fundamental prerequisite to the adoption of technology in an organization?
- (A) Understanding qualitative changes in relationships and realizing the shift in traditional power centres.
- (B) Purchasing the most expensive hardware and software packages currently available

situations.

Which of the above statement(s) is/are correct?

- (A) I and II
- (B) II and III
- (C) I and III
- (D) I, II, and III

Oct/Nov 2014

50. Consider the following statements regarding Data Analytics:

- I. Traditional decision support systems require structured data bases and pre-designed queries.
- II. Advanced analytics tools, such as the open-source 'R' programming language, have capabilities to handle huge unstructured data.

Which of the above statement(s) is/are correct?

- (A) Only I
- (B) Only II
- (C) Both I and II
- (D) Neither I nor II

May/June 2019

51. Consider the following statements regarding the benefits of Effective Knowledge Management:

- I. Learning from Mistakes (preventing recurrences).
- II. Faster Delivery to Clients resulting in expanded win rates.
- III. Stimulation of Growth and Innovation.
- IV. Standardizing Processes based on approved procedures.
- V. Providing Better Service to Employees and Customers.

Which combination of the above statements is correct?

- (A) I, II, III, and IV
- (B) I, III, IV, and V
- (C) II, III, IV, and V
- (D) I, II, III, IV, and V

Oct/Nov 2006

52. Match the types of Applied HR Research in List I with their methodologies in List II.

List I: (Research Types)

- P. Statistical approach
- Q. Comparative approach
- R. Outside authority approach
- S. Compliance approach

List II: (Methodologies)

- 1. Directly comparing the organization with another organization to figure out areas of poor performance.
- 2. Generating standards from existing records to discover the smallest of errors easily.
- 3. Looking for deviation from laws and company policies using HRIS samples.
- 4. Counting on the expertise of a consultant or published researched records as standards.

- (A) P-2, Q-1, R-4, S-3
- (B) P-1, Q-2, R-3, S-4
- (C) P-4, Q-3, R-1, S-2
- (D) P-3, Q-4, R-2, S-1

May/June 2021

53. Which of the following pairs of IT-based training programs is incorrectly matched with its description?

- (A) Virtual instructor-led training (VILT) - An ILT converted for online delivery enabling real-time interaction.
- (B) e-Learning - Formalised teaching delivered online through digital devices and mostly hosted on LMS portals.
- (C) Augmented Reality (AR) - Users immerse themselves in a simulated environment, shutting out the real world.
- (D) Virtual Reality (VR) - Simulating dangerous and risky environments, such as battle scenarios, without physical risk.

Oct/Nov 2010

54. Consider the following main activities that can be performed online through e-HRM:

- I. e-Recruitment
- II. e-Selection
- III. e-Performance Management
- IV. e-Compensation

Which combination of the above statements is correct?

- (A) I, II, and III
- (B) I, III, and IV
- (C) II, III, and IV
- (D) I, II, III, and IV

May/June 2005

55. Consider the following statements regarding the benefits of HRMS:

- I. An HRMS helps only large organizations

research team extracts a sample of recent hires from the HRIS. They analyze this sample specifically to look for deviations from mandated laws and company policies. Which type of applied research approach are they using?

- (A) Statistical approach
- (B) Comparative approach
- (C) Outside authority approach
- (D) Compliance approach

May/June 2008

77. Read the following scenario and answer the question that follows:

A customer service representative at a bank help desk encounters a complex, rare issue with a corporate account. Instead of reinventing the solution, the representative searches the bank's internal metadata and historical templates to find out how a similar issue was successfully handled by another employee six months ago. Which specific benefit of effective knowledge management is demonstrated here?

- (A) Preventing the use of automated reminders and email schedules throughout the entire banking organization.
- (B) Utilizing outside authority approaches by hiring expensive consultants to solve minor administrative issues.
- (C) Faster delivery of services to clients while making critical information easy for internal staff to find.
- (D) Simulating Virtual Reality battle scenarios to train help desk staff on how to handle difficult phone calls.

Oct/Nov 2013

78. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): Virtual Reality (VR) technology has certain advantages over Augmented Reality (AR) in specific employee training scenarios.

Reason (R): VR allows trainees to simulate dangerous and risky environments without physically visiting those places, ensuring safe hands-on experience.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct

explanation of Assertion (A).

- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2015

79. Read the following scenario and answer the question that follows:

Global Bank Corp has thousands of employees working remotely across various continents. The management wants a standardized, transparent method to evaluate individual employee performance. They deploy a web-based technology utilizing computer monitoring tools and online review writing portals that generate continuous feedback. Which e-HRM activity is Global Bank Corp implementing?

- (A) e-Selection
- (B) e-Performance Management
- (C) e-Compensation
- (D) e-Learning

Oct/Nov 2012

80. Read the following scenario and answer the question that follows:

A bank decides to implement a knowledge management program. However, employees resist sharing expertise because the current appraisal system rewards individual performance, fostering a "knowledge is power" mindset. To minimize negative impact, the management decides to alter the organization's norms and reward structures before rolling out the software. Which step of implementing an effective KM program does this represent?

- (A) Prepare for change (Cultural change)
- (B) Establishing objectives
- (C) Defining Technology needs
- (D) Monitor & Measure the KM Programme

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Which of the above statement(s) is/are correct?

- (A) Only I
- (B) Only II
- (C) Both I and II
- (D) Neither I nor II

May/June 2025

61. Read the following scenario and answer the question that follows:

A national bank operates across multiple geographical zones. Information about an employee is currently maintained at field units, processed at regional offices, and recorded at the corporate office, resulting in duplication of efforts. The bank wants a system to ensure data is updated once, shared across units, and used consistently for day-to-day decisions. Which system must the bank implement to resolve this?

- (A) A localized manual filing system at each field unit.
- (B) A Virtual Reality (VR) Training Module.
- (C) A Human Resource Information System (HRIS).
- (D) An outside authority approach system.

Oct/Nov 2019

62. Read the following scenario and answer the question that follows:

A company is at the early stages of implementing a knowledge management program. They establish program objectives and prepare the culture for change. Before finalizing detailed procedures and determining specific technology needs, they outline a broad sequence of how knowledge will flow among users and contributors. Which step in the KM implementation process does this action represent?

- (A) Defining high-level Process
- (B) Monitor & Measure the KM Programme
- (C) Outside authority approach
- (D) Compliance approach

May/June 2009

63. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): Successfully implementing a new knowledge management program often

requires managing cultural change within the organization's norms and shared values.

Reason (R): Companies primarily reward individual performance, which promotes a "knowledge is power" behavior that contradicts a knowledge-sharing culture.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2011

64. Read the following scenario and answer the question that follows:

A Bank A has noticed a drop in employee satisfaction regarding its performance appraisal system. To identify areas of poor performance, Bank A's research team directly evaluates and measures its appraisal system against that of Bank B, a highly successful competitor known for its innovative HR practices. Which type of applied research is Bank A conducting?

- (A) Comparative approach
- (B) Statistical approach
- (C) Outside authority approach
- (D) Compliance approach

May/June 2010

65. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): Utilization of technology in the banking sector necessitates the formulation of HR strategies including an exit policy.

Reason (R): Utilization of technology is bound to release excess staff, render certain branches surplus, and act as a damper on the enthusiasm of the organization.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

22. (B) The lack of management commitment

The successful implementation of a human resource information system depends on various factors, but the lack of commitment from senior management is often the biggest hurdle. Without top-level support, initiatives may lack the necessary funding, resources, and organizational buy-in. While technical issues or employee resistance are significant, consistent leadership backing is crucial for driving the cultural shift required for technological adoption.

23. (D) VR allows users to immerse themselves in a fully simulated environment to safely experience high-risk scenarios.

Virtual reality and augmented reality serve different roles in employee training. Virtual reality creates a fully immersive, computer-generated environment that replaces the user's physical surroundings. This is particularly effective for simulating high-risk or dangerous scenarios where trainees can practice safely. In contrast, augmented reality adds digital elements to the existing real-world environment, allowing users to remain aware of and interact with their surroundings.

24. (D) Profitability

An effective knowledge management program is built upon five core components: people, processes, technology, structure, and culture. These elements work together to ensure that information is captured, shared, and utilized across the organization. While profitability may be a long-term result of successful knowledge management, it is not considered one of the foundational internal components required for the program's initial assessment and design.

25. (B) Moving to a future organization implies change, and there is no possibility that this change will be resisted by the existing workforce. Resistance to information technology often stems from a fear of the unknown, loss of power, or the inability to change one's mindset. It is incorrect to assume that a workforce will automatically embrace change. Human psychology often involves a subconscious attachment to traditional methods, which can lead to friction during transitions. Successful

implementation requires acknowledging these anxieties and proactively managing the transition.

26. (D) Data sets too large or complex for traditional databases to capture, manage, and process with low latency.

In the field of analytics, big data refers to extremely large or complex data sets that exceed the processing capabilities of traditional database systems. These data sets are characterized by high volume, variety, and velocity, often arriving in unstructured formats. Because they cannot be managed with standard tools, specialized technologies are required to capture, store, and analyze them with low latency.

27. (A) Understanding qualitative changes in relationships and realizing the shift in traditional power centres.

The most basic prerequisite for adopting technology in an organization is understanding the qualitative changes it brings to workplace relationships. Technology often shifts traditional power centers and alters how individuals interact with one another. Successful adoption requires more than just purchasing hardware; it requires recognizing how digital tools will redefine collaboration, communication, and authority structures within the existing organizational culture.

28. (A) An HRMS handles both IT and HR management technology, including qualitative data alongside standard HRIS data.

A human resource management system is generally considered more comprehensive than a human resource information system. While both handle personnel data, the management system integrates qualitative information and advanced management technology alongside standard data. This broader scope allows for a more holistic approach to workforce management, combining administrative record-keeping with strategic tools for performance, development, and complex organizational scheduling needs.

- (A) Big Data Velocity
- (B) Operational e-HRM
- (C) Knowledge Management
- (D) e-Compensation

May/June 2013

- 71.** The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): HR people must be knowledgeable about how data is stored, retrieved, and analyzed to make effective, data-driven decisions.

Reason (R): Effective HR requires HR personnel to be qualified experts in advanced statistical data analysis.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2021

- 72.** Read the following scenario and answer the question that follows:

The Chief HR Officer of a bank suspects implicit biases in the promotion process of branch managers. She authorizes the IT department to run queries on variables like age, gender, geographical regions, and past performance appraisals from their centralized database to identify any mismatches or gaps. Which specific feature of HRIS is being utilized here?

- (A) e-Recruitment tracking
- (B) Augmented Reality simulations
- (C) Virtual Instructor-led training
- (D) Data Mining and Decision Support System (DSS) capabilities

May/June 2024

- 73.** Read the following scenario and answer the question that follows:

A bank's training academy traditionally conducted Instructor-Led Training (ILT) in physical classrooms. They convert this entire

format for online delivery. Participants from across the country connect via a platform that imitates a two-dimensional space, allowing real-time interaction with the instructor during live sessions. What specific type of IT-based training program is this?

- (A) Gamified mobile learning
- (B) Virtual instructor-led training (VILT)
- (C) Augmented Reality (AR) onboarding
- (D) Virtual Reality (VR) immersion

Oct/Nov 2008

- 74.** Read the following scenario and answer the question that follows:

After implementing a Knowledge Management program for a year, an organization establishes a balanced scorecard to provide metrics in the areas of performance, quality, compliance, and value. By comparing these new results to baseline measurements taken before implementation, the organization takes actions to mitigate value gaps. Which step of the KM implementation process is this?

- (A) Assess Present status of KM
- (B) Draw an Implementation Plan
- (C) Defining high-level Process
- (D) Monitor & Measure the KM Programme

May/June 2006

- 75.** Read the following scenario and answer the question that follows:

A mid-sized regional bank is experiencing high turnover rates among its loan officers. The HR manager has historically used reports showing turnover percentages. She now wants to implement a new approach using existing talent data to interpret why turnover is happening, gauge employee engagement, and predict which new hires are most likely to stay. What specific HR technology approach is the manager transitioning to?

- (A) HR Analytics
- (B) Personnel Manager Modular Tracking
- (C) Traditional Record Keeping
- (D) e-Compensation Administration

Oct/Nov 2017

- 76.** Read the following scenario and answer the question that follows:

To ensure that a bank's recruitment process adheres strictly to government regulations regarding diversity and inclusion, the HR

supports decision-making, reporting, and operational efficiency. This system serves as a foundational tool for tracking employee lifecycles and ensuring data accuracy across the organization.

8. (B) Volume, Variety, and Velocity

The three dimensions of big data are commonly described through the three Vs model. Volume refers to the massive amount of data generated. Variety represents the diverse formats and types of information, ranging from structured to unstructured. Velocity indicates the high speed at which data is created and processed. Together, these properties define the complexity and scale of modern analytics.

9. (B) Decreasing competitiveness by complicating human resource processes and functions.

Implementing a human resource information system offers several operational advantages, such as accurate decision-making for promotions and easy statutory reporting. Rather than decreasing competitiveness, these systems enhance organizational performance by streamlining complex processes and functions. By providing a single, integrated database, the technology allows for better resource allocation and a more comprehensive view of the workforce's capabilities and needs.

10. (C) It leads to flatter and leaner organizations where individuals function largely as knowledge workers.

The introduction of information technology significantly transforms organizational structures by reducing the need for traditional hierarchies. As communication and data access become more decentralized, companies tend to become flatter and leaner. In this environment, employees operate primarily as knowledge workers with greater autonomy. This shift modifies both the physical office requirements and the psychological dynamics of workplace authority and collaboration.

11. (A) To provide insights for effectively managing employees so that organizational business goals can be reached efficiently.

The primary objective of human resource analytics is to utilize workforce data to generate strategic insights. By interpreting patterns

in recruitment, performance, and retention, organizations can manage their employees more effectively. This data-driven approach ensures that business goals are reached efficiently. It goes beyond simple record-keeping to provide a predictive framework for optimizing human capital and enhancing overall organizational performance.

12. (C) Nineteenth century enterprise

In the modern economy, knowledge has become the most critical asset for organizational success, similar to the role of railroads in the past. During the nineteenth century, the expansion of railroads revolutionized enterprise by enabling rapid transport and trade. Today, the effective management and flow of knowledge perform a comparable function by driving innovation and connectivity in the global marketplace.

13. (A) The office is situated in one location with centralized managerial control and zero employee turnover.

Organizations typically benefit from a human resource management platform when facing high turnover, heavy workloads, or frequent data errors. Conversely, a small company operating in a single location with centralized control and zero employee turnover has minimal need for such complex software. In such stable and simple environments, manual processes may still be sufficient to manage the limited administrative requirements.

14. (C) It involves transforming organizational mindsets to adopt technology and applying IT to the HRM function itself.

In the information age, human resource management must fulfill two major roles to stay relevant. First, it must drive a cultural transformation that encourages the entire organization to embrace technological change. Second, it must modernize its own internal functions by integrating information technology into daily operations. This dual focus ensures that the department remains a strategic partner while improving its efficiency.

ANSWERS

1. (D) More than 22%

The global knowledge management market is witnessing significant growth as organizations prioritize intellectual capital. Research indicates that from 2016 to 2025, this sector is expected to expand at a compound annual growth rate exceeding twenty-two percent. This trend reflects a global shift toward data-driven decision-making and the systematic capture of institutional expertise for competitive advantage.

2. (C) It ensures that collective knowledge is lost when competent employees join other firms, causing a brain drain.

An effective knowledge management system offers numerous organizational advantages, including lower training costs and improved innovation through information sharing. However, the loss of collective knowledge when experienced staff leave a firm is a negative outcome known as brain drain. Such losses actually highlight a failure or absence of knowledge management rather than being a benefit of the process.

3. (C) The process of creating, storing, distributing, and pooling knowledge for effective and efficient use among employees.

Knowledge management is a strategic business practice focused on the lifecycle of information within an organization. It involves the systematic creation, storage, distribution, and pooling of insights and expertise. The goal is to ensure that employees can effectively and efficiently utilize collective organizational intelligence to solve problems, innovate, and achieve operational excellence across various functional departments.

4. (C) Complete elimination of human decision-making in all strategic banking operations and executive leadership.

Big data analytics provides organizations with enhanced decision-making capabilities, cost reductions, and improved market strategies through the processing of diverse data

sources. While these tools assist leaders by identifying risks and opportunities, they do not replace human judgment in strategic banking operations. Executive leadership remains essential for interpreting complex ethical and strategic contexts that automated systems cannot fully navigate.

5. (B) HR metrics track historical employee data, while HR analytics interpret data to recognize trends and provide insights.

While often used together, human resource metrics and analytics serve distinct purposes. Metrics focus on tracking historical workforce data such as turnover rates or headcount. In contrast, analytics involve interpreting that data to recognize emerging trends and provide actionable insights. This distinction allows organizations to move from simply reporting past events to predicting future needs and improving employee engagement.

6. (B) Sharing data to support business processes like recruitment and maintaining virtual employee relationships.

Relational electronic human resource management focuses on using technology to support business processes that involve interaction and relationship building. This includes activities such as recruitment, selection, and the maintenance of virtual connections among staff. Unlike purely administrative systems, this approach facilitates communication and collaboration across the organization, ensuring that human capital remains engaged and integrated despite geographical barriers.

7. (B) An integrated system used to gather, store, and analyze information regarding an organization's human resources.

A human resource information system is an integrated platform designed to manage personnel data comprehensively. It facilitates the gathering, storage, and analysis of information related to an organization's workforce. By centralizing data from various functions, it

- (C) Assertion (A) is true, but Reason (R) is false.
 (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

66. Read the following scenario and answer the question that follows:
 An airline company needs to train its new pilots on the internal mechanics of a highly sensitive, heavy-duty aircraft engine. To enhance the user's experience without risking damage to actual multi-million dollar equipment, the training department superimposes a 3D digital model of the engine into the real-world training room using camera-enabled devices. What technology is being utilized here?
 (A) Virtual Instructor-led training (VILT)
 (B) Augmented Reality (AR)
 (C) Relational e-HRM
 (D) Data Warehouse Federation

May/June 2017

67. Read the following scenario and answer the question that follows:
 A rapidly growing fintech startup is struggling with manual HR functions. Their HR team is overworked handling compliance, payroll, and performance evaluations. They are looking to purchase software but realize "one size does not fit all." According to recommended practices for finding the right system, what should be their primary action before comparing vendor strengths?
 (A) Immediately purchase the cheapest HRIS software available in the market without prior consultation.
 (B) Fire the current internal HR team and outsource all HR tasks to a third-party consultancy firm.
 (C) Understand the basic HRMS features and how they address compliance and evolving organizational needs.
 (D) Restrict employees from updating their own information to maintain strict data integrity manually.

Oct/Nov 2005

68. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): Advanced analytics tools, such as open-source software, are increasingly essential in HR analytics to extract and analyze data from multiple sources.

Reason (R): Traditional decision support systems are fully capable of handling huge unstructured data with low latency without any need for advanced programming languages like 'R'.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 (C) Assertion (A) is true, but Reason (R) is false.
 (D) Assertion (A) is false, but Reason (R) is true.

May/June 2020

69. Read the following scenario and answer the question that follows:
 A multinational financial institution wants to uncover hidden correlations regarding employee retention. They start collecting and examining high-volume, high-velocity data generated from internal sensors, transactional applications, employee social media interactions, and web logs. They plan to use open-source software like Apache Hadoop to process this data. What concept does this process best describe?
 (A) e-Learning administration
 (B) Traditional relational database management
 (C) Static data master file updating
 (D) Big Data analytics

Oct/Nov 2015

70. Read the following scenario and answer the question that follows:
 A leading IT firm realizes that whenever senior software developers leave, they take critical, undocumented problem-solving techniques with them, leading to project delays. To prevent this "brain drain," the firm decides to implement a systematic approach to capture their tacit knowledge into wikis and databases for future employees to use. What is this strategy known as?

- 15.** (D) Because they collect data on recruitment, training, and productivity that can be used to optimize value.

Human resource departments handle vast amounts of information regarding recruitment, training, and employee productivity. This data is considered a gold mine because, when analyzed correctly, it can reveal ways to optimize organizational value and performance. By leveraging these internal records, companies can make informed decisions about talent development and resource allocation, turning routine administrative files into powerful strategic assets for growth.

- 16.** (A) Technology-based planning and application for networking actors in their shared performance of HR activities.

Electronic human resource management is defined as the technology-based planning and application for networking various actors during their shared performance of HR activities. It creates a digital ecosystem where managers, employees, and specialists can interact and execute tasks through shared platforms. This approach facilitates better communication and streamlines processes by allowing different stakeholders to collaborate effectively regardless of their physical location.

- 17.** (A) Simulating an oil spill setup where environmental workers handle a disaster through a fully immersive headset.

Augmented reality technology superimposes digital information or 3D models onto a user's view of the physical world. While it is useful for equipment maintenance, surgical assistance, and cargo operations, simulating a fully immersive environmental disaster like an oil spill typically requires virtual reality. Virtual reality provides a completely simulated environment that shuts out the real world, which is necessary for complex simulations.

- 18.** (A) Virtual Instructor-Led Training

Virtual instructor-led training is a modern educational format where a live instructor conducts training in a digital environment. It utilizes online platforms to facilitate real-time interaction between the facilitator and participants, mimicking a physical classroom

experience. This method allows organizations to deliver consistent training to a dispersed workforce while maintaining the benefits of active engagement and immediate feedback during sessions.

- 19.** (D) It provides high-level interaction with immediate personal reinforcement from a physically present trainer.

Electronic learning offers flexibility but presents challenges such as the need for high self-discipline and potential feelings of isolation among learners. Unlike traditional classroom settings, it does not involve a physically present trainer who can provide immediate personal reinforcement or high-level social interaction. The absence of a physical instructor is considered a significant limitation for those who thrive on direct mentorship.

- 20.** (A) It relates to administrative functions of the HR division, focusing on tasks like payroll and employee data.

Operational electronic human resource management is primarily concerned with the administrative and transactional aspects of personnel functions. Its focus includes basic tasks such as managing payroll, maintaining employee personal data, and tracking time records. By automating these routine duties, organizations can improve data accuracy and reduce the time spent on manual paperwork, allowing the department to function with greater administrative efficiency.

- 21.** (C) To evaluate HR practices, feel the pulse of the workforce, and identify issues requiring policy revision.

A research-oriented approach is essential for modern human resource management to stay effective in a changing business landscape. It allows organizations to evaluate existing practices, monitor workforce morale, and identify specific issues that require policy changes. By systematically gathering and analyzing internal feedback and performance data, HR professionals can ensure that their strategies remain aligned with employee needs and organizational goals.

and offers no benefits to small start-ups.

II. Employees can handle clerical tasks regarding their personal information input.

III. Organizational heads can schedule automated reminders and emails to facilitate acknowledgment of messages.

Which of the above statement(s) is/are correct?

- (A) I and II
- (B) II and III
- (C) I and III
- (D) I, II, and III

Oct/Nov 2022

56. Match the categories of data in a typical HRIS in List I with their specific examples in List II.
List I: (Data Categories)

P. Bio-data

Q. Educational/Professional Qualifications

R. Organisational History

S. Performance Data

List II: (Examples)

1. Degrees, certifications, and skill competencies.
2. Placements, Promotions, and Training.
3. Name, Gender, Address, Blood Group.
4. Competencies and Performance Appraisal.

- (A) P-3, Q-1, R-2, S-4
- (B) P-1, Q-4, R-3, S-2
- (C) P-4, Q-2, R-1, S-3
- (D) P-2, Q-3, R-4, S-1

May/June 2018

57. Consider the following advantages of HRIS implementation:

- I. Automating routine tasks to let HR professionals focus on strategic tasks.
- II. Facilitating timely decision-making in promotion, transfer, and retirement.
- III. Supplying data and submitting returns to statutory agencies.
- IV. Increasing competitiveness by re-engineering human resource processes.
- V. Providing structural connectivity across units through a single integrated data base.

Which combination of the above statements is correct?

- (A) I, II, III, and IV
- (B) II, III, IV, and V

(C) I, III, IV, and V

(D) I, II, III, IV, and V

Oct/Nov 2016

58. Which of the following pairs outlining common functions of HRMS systems is incorrectly matched?

- (A) Keeping attendance records - Manually copying physical logbooks to external government ledgers.
- (B) Performance evaluation - Executing performance reviews and storing historical performance data.
- (C) Employee self-service - Allowing employees to update personal information to keep records accurate.
- (D) Managing payroll - Automating the distribution of salaries and tracking accomplishments.

May/June 2014

59. Consider the following observations regarding the need for IT orientation within an HR department:

- I. Avoiding duplication of efforts when collecting and sharing employee data across geographical units.
- II. Storing voluminous, broad-based data including traditional salary as well as competencies and skills.
- III. Embedding day-to-day decisions and policy reviews in databases to achieve objectivity and consistency.
- IV. Ensuring adherence to statutory requirements by maintaining required databases.

Which combination of the above statements is correct?

- (A) I, II, and III
- (B) I, III, and IV
- (C) II, III, and IV
- (D) I, II, III, and IV

Oct/Nov 2007

60. Consider the following statements regarding e-Compensation:

- I. It restricts the gathering, analyzing, and distribution of compensation data strictly to the central corporate office location.
- II. Individuals can access electronically distributed compensation software and analytic tools from any place in the world.

- 29.** (C) The database related to an employee is becoming narrow-based, focusing solely on traditional salary data.

Information technology has expanded the scope of human resource functions by enabling remote data updates and consistent, objective decision-making. Modern databases are becoming more broad-based, moving beyond simple salary records to include detailed competencies and skills. Claims that these databases are becoming narrow-based or limited to traditional financial data are inaccurate, as technology actually allows for more comprehensive and multi-faceted employee profiles.

- 30.** (D) Understand the basic HRMS features and how they address compliance and challenges in a growing workforce.

Selecting the appropriate human resource management system requires a thorough understanding of an organization's specific needs. It is important to evaluate how different features address compliance requirements and the challenges of a growing workforce. Decision-makers should avoid a "one size fits all" mentality and involve human resource professionals in the selection process to ensure the software aligns with strategic goals.

- 31.** (A) P-4, Q-1, R-3, S-2

Core knowledge management components are linked to specific organizational objectives. People focus on increasing the ability of individuals to influence others through expertise. Processes provide best practices and governance for information dissemination. Technology enhances how tools and automation are used. Structure focuses on transforming the organization to facilitate cross-discipline awareness. Together, these elements form a cohesive management framework for optimizing intellectual capital.

- 32.** (B) II and III

Transformational electronic human resource management is focused on strategic organizational exercises rather than routine administrative tasks. It involves activities like knowledge management and strategic re-orientation. By leveraging technology for these purposes, the human resource department can

become a strategic partner in achieving long-term business goals. This approach aims to improve overall organizational efficiency and adaptability in a rapidly changing market.

- 33.** (A) P-3, Q-4, R-1, S-2

A comprehensive human resource database includes various modules and data types. The personnel manager module is designed for use by HR staff and management. Employee self-service modules allow staff to manage their own administrative tasks. Traditional data sets consist of records like salary and leave. Non-traditional sources involve more complex data, such as social media sentiment analysis and email content monitoring.

- 34.** (B) I, II, and IV

Modern electronic learning is shaped by emerging trends like artificial intelligence, expert systems, and natural language interfaces. It also utilizes advanced image processing, animation, and video conferencing to simulate real-life situations. These technologies enhance the interactive and immersive nature of digital education. While the technology evolves, the focus remains on using multimedia and sophisticated software to create more engaging learning environments.

- 35.** (A) Only I

The idea that information technology has diminished the importance of human resources is a common myth. While computers and automation handle routine tasks, they cannot replace the complex, strategic decision-making abilities of human beings. Technology serves as a tool to support HR professionals, not as a replacement for the human insight and leadership required to manage a diverse and dynamic workforce.

- 36.** (A) I, II, III, and IV

Effective knowledge management provides several benefits, including lower training costs by reducing reliance on external providers and improved decision-making power. It also makes information easier to find through standardized templates and prevents brain drain by capturing expertise before employees leave. While it streamlines work, the primary

CHAPTER 17

Overview of Credit Management

Oct/Nov 2016

1. Consider the following statements regarding the broad facets of Credit Management:
 - I. Efficient credit management is very important in achieving the financial objectives of any bank, as income on advances remains the main source of income.
 - II. Each bank formulates its own elaborate loan policy detailing the organisational set up for credit administration and prudential norms.
 - III. Appraisal of a credit proposal plays a major role in ensuring timely repayment of money lent by the bank and interest on it.
 - IV. Management of problematic assets is largely irrelevant once the early warning signals have flagged the account as SMA-0.Which of the above statement(s) is/are correct?
 - (A) I, II, and III only
 - (B) II, III, and IV only
 - (C) I, III, and IV only
 - (D) I, II, III, and IV

May/June 2009

2. Consider the following statements regarding the terminology for large borrowers:

Statement I: Aggregate Sanctioned Credit Limit (ASCL) means the aggregate of the fund based credit limits sanctioned or outstanding, whichever is higher, to a borrower by the banking system.

Statement II: A borrower who has an ASCL of more than Rs. 10,000 crores is officially termed as a 'Specified Borrower'.

Which of the following is correct?
 - (A) Statement I is correct, but Statement II is incorrect.
 - (B) Statement I is incorrect, but Statement II is correct.
 - (C) Both Statement I and Statement II are

correct.

- (D) Both Statement I and Statement II are incorrect.

Oct/Nov 2012

3. Given below are two statements, one labelled as Assertion (A) and the other as Reason (R).

Assertion (A): Nationalisation of banks in 1969 was a watershed event that changed the flow of credit from being directed mostly towards big business houses to hitherto neglected sectors.

Reason (R): After nationalisation, the Reserve Bank of India exercised greater control on the banks and ensured that the concept of 'Priority Sector' became an integral part of the banking system.

 - (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

May/June 2022

4. For borrowers having an aggregate fund based working capital limit of Rs. 150 crores and above from the banking system, what is the minimum insisted level of the 'loan component' out of the sanctioned fund based working capital limit?
 - (A) 40 per cent
 - (B) 50 per cent
 - (C) 60 per cent
 - (D) 75 per cent

Oct/Nov 2005

5. Bankers have evolved certain basic unwritten principles for their lending operations over a period of time. Which of the following is NOT one of the recognized basic principles of credit?

data permissions to authorized personnel, ensuring that only those with a need-to-know can access records.

45. (A) I, II, III, and IV

While the terms are often used interchangeably due to corporate rebranding, a human resource information system is technically a type of management system. Information systems typically track numerical data and scheduling, while management systems also handle qualitative employee information. Crucially, both types of platforms are designed to include functions like payroll management and benefit administration to provide a comprehensive solution.

46. (A) Assess Present status of KM → Draw an Implementation Plan → Implementation stage → Monitor & Measure the KM Programme

After initial planning, the next steps in a knowledge management program include assessing the current status to identify gaps. An implementation plan is then drawn to bridge these gaps. During the implementation stage, the planned strategies are put into action. Finally, the organization must monitor and measure the program's performance to ensure it meets its objectives and delivers measurable organizational value.

47. (D) I, II, III, and IV

A thorough assessment of an organization's knowledge management status must evaluate several interconnected factors. This includes looking at the people involved, the formal processes for information flow, and the technology available for storage and retrieval. Additionally, the existing organizational culture must be assessed to determine how well it supports or resists the sharing of information and expertise among different departments.

48. (B) R programming language - Handles unstructured data with capabilities to extract and analyse large data sets.

Advanced analytical software plays a vital role in modern workforce management. For example, the open-source R programming language is widely used for its ability to handle and analyze large, unstructured data sets. This tool allows for complex statistical modeling that

traditional databases cannot perform. Unlike simpler systems, it provides the flexibility needed to extract deep insights from diverse information sources.

49. (C) I and III

Electronic learning offers several significant benefits, such as allowing students to study at their own pace and in a location that suits them. These systems can also facilitate high-level interaction and simulate real-life situations through multimedia. While initial setup requires investment, it is not universally cost-prohibitive, especially when compared to the long-term expenses associated with traditional physical classrooms and instructor travel.

50. (C) Both I and II

Data analytics has evolved from traditional systems to advanced modern tools. Traditional decision support systems were designed to work with structured databases and pre-set queries. In contrast, modern advanced analytics tools like the R programming language are capable of processing massive amounts of unstructured data. This evolution allows organizations to move beyond simple reporting toward more complex and predictive data analysis.

51. (D) I, II, III, IV, and V

Effective knowledge management offers broad benefits for organizations. It helps prevent recurring mistakes by fostering learning from past experiences and speeds up service delivery to clients. Furthermore, it stimulates innovation and growth while standardizing processes according to best practices. Ultimately, these systems improve the quality of service provided to both employees and customers by ensuring that critical information is always accessible.

52. (A) P-2, Q-1, R-4, S-3

Applied human resource research utilizes various approaches to improve organizational performance. A statistical approach generates standards from records to detect errors. The comparative approach evaluates an organization against a high-performing peer. The outside authority approach relies on experts or published research as benchmarks. Finally, the compliance approach focuses on identifying

goal is not to increase repetitive tasks but to foster innovation and process efficiency.

- 37.** (B) Establish objectives → Prepare for change → Define high-level Process → Define Technology needs

The initial phase of a knowledge management program begins with establishing clear objectives to define what the organization hopes to achieve. Next, the organization must prepare its culture for change to ensure employee buy-in. Following this, a high-level process is defined to outline the flow of knowledge. Finally, the specific technology needs are determined to support the established processes and goals.

- 38.** (B) II and III

Information technology is driving a transition toward flatter and leaner organizational structures by reducing the necessity of multiple hierarchical layers. This shift changes the physical and psychological settings of the workplace, as employees become individualistic knowledge workers. Modern organizations increasingly rely on decentralized data access and autonomous decision-making, which fundamentally alters traditional office dynamics and the way personnel are managed and motivated.

- 39.** (A) I, II, and III

Human resource management systems are designed to assist with various personnel-related functions, such as payroll administration and benefit management. They provide a centralized platform for gathering, storing, and accessing employee information while also tracking attendance and absenteeism. While these systems are vital for managing the workforce, they are not typically used for the design or manufacturing of a company's physical products.

- 40.** (D) e-Selection - Utilizing procedural steps and assessment tools to utilize human capital at a reduced cost.

In the digital HR environment, specific activities are streamlined through technology. For instance, electronic selection involves using procedural steps and assessment tools to optimize the hiring of human capital at a reduced cost. This process differs from recruitment, which

focuses on sourcing, or learning, which focuses on training. Technology allows for more precise and cost-effective methods for evaluating and selecting candidates.

- 41.** (D) I, II, III, IV, and V

Big data is driven by a wide array of modern technological sources that generate massive amounts of complex information. These sources include mobile devices, social media platforms, the Internet of Things, and artificial intelligence systems. Additionally, sensors, video files, networks, and log files contribute to the high-velocity data stream. Analyzing these diverse inputs allows organizations to gain deeper insights than traditional data.

- 42.** (B) P-2, Q-4, R-1, S-3

The different types of electronic human resource management have specific focus areas. Operational systems handle administrative tasks like payroll. Relational systems support business processes such as training and building virtual connections. Transformational systems are concerned with knowledge management and strategic re-orientation. Finally, the essence of the concept lies in the devolution of HR operations to management and staff through web technologies.

- 43.** (A) I and II

Modern human resource database maintenance utilizes several sophisticated tools. Data mining tools are designed to prompt decision-makers to use information effectively, while decision support systems and expert systems assist in organizing and analyzing data. Importantly, technology allows for granular access control, meaning that different sections of data can be restricted to specific individuals to maintain confidentiality and security within the organization.

- 44.** (B) Only II

Maintaining a human resource information system requires balancing data updates and security. Static data, such as birth dates and names, remains constant and does not need frequent updating once recorded. However, protecting this sensitive information is critical. Software-supported access control measures are used to maintain confidentiality by restricting

modern software allows authorized individuals to access compensation tools and analytics from anywhere in the world. This accessibility enables more flexible management of payroll and benefits, supporting a global workforce and facilitating decentralized decision-making processes.

- 61.** (C) A Human Resource Information System (HRIS).

To resolve issues of data duplication and inconsistency across multiple geographical zones, a national bank should implement a centralized human resource information system. This technology allows data to be updated once and shared instantly across field units, regional offices, and the corporate headquarters. By providing a single source of truth, the system ensures that day-to-day decisions are based on accurate information.

- 62.** (A) Defining high-level Process

In the implementation of a knowledge management program, outlining the broad sequence of knowledge flow represents the step of defining a high-level process. This stage occurs before determining specific technology needs or detailed procedures. By establishing how contributors and users will interact with information, the organization creates a conceptual framework that guides the subsequent technical and operational design of the entire program.

- 63.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

A major challenge in knowledge management is shifting an organization's culture from individualism to collaboration. In many companies, performance appraisals reward individual achievements, which reinforces the idea that hoarding expertise is a source of power. To succeed, a program must address these existing norms and shared values. Aligning reward structures with knowledge-sharing behaviors is essential for overcoming cultural resistance.

- 64.** (A) Comparative approach

When an organization evaluates its internal systems by measuring them against a successful

competitor, it is utilizing a comparative approach to applied research. This methodology helps identify specific areas of poor performance by using another organization's high standards as a benchmark. By comparing appraisal systems directly, the bank can pinpoint gaps and adopt innovative practices that have already proven effective elsewhere.

- 65.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

The adoption of advanced technology in the banking sector often leads to the release of excess staff and the closure of surplus branches. Because these changes can negatively impact employee morale, it is essential to formulate comprehensive human resource strategies, including clear exit policies. Addressing these issues proactively helps manage the transition and maintains organizational stability during periods of significant technological restructuring.

- 66.** (B) Augmented Reality (AR)

The scenario describes the use of augmented reality, a technology that superimposes 3D digital content into a real-life environment. By using camera-enabled devices to project a model of an engine into a training room, the airline allows trainees to gain hands-on experience without risking expensive equipment. This enhances the learning process by providing a realistic experience while maintaining safe, real-world context.

- 67.** (C) Understand the basic HRMS features and how they address compliance and evolving organizational needs.

For a growing organization, the first step in finding the right management system is understanding basic features and how they address specific compliance and workforce needs. Because every company has unique requirements, a "one size fits all" approach is ineffective. Prioritizing an understanding of these organizational challenges before comparing vendors ensures that the selected software will support long-term strategic growth.

- 68.** (C) Assertion (A) is true, but Reason (R) is false.

Advanced analytics tools are becoming vital for HR because traditional decision support systems struggle with the massive volume and variety of unstructured data. Tools like the R programming language provide the specialized capabilities needed to process complex information with low latency. While traditional systems remain useful for structured tasks, they cannot match the power of modern open-source software for deeper analytical insights.

- 69.** (D) Big Data analytics

Analyzing high-volume, high-velocity data from diverse sources like social media, sensors, and web logs is the core of big data analytics. Using specialized software like Apache Hadoop allows organizations to uncover hidden correlations and patterns, such as factors influencing employee retention. This approach goes beyond traditional database management by handling the scale and complexity of information generated in a modern digital environment.

- 70.** (C) Knowledge Management

Capturing the undocumented expertise of departing employees to prevent project delays is a core objective of knowledge management. This strategy involves turning tacit knowledge into explicit information stored in databases and wikis. By systematically documenting problem-solving techniques, an organization ensures that critical institutional intelligence remains available for future staff. This proactive approach helps mitigate brain drain and maintains continuous operational efficiency.

- 71.** (C) Assertion (A) is true, but Reason (R) is false.

Human resource professionals need to understand how data is stored and retrieved to make informed decisions. However, they are not required to be qualified experts in advanced statistical analysis. While literacy in data management is essential for collaboration with IT and analytics departments, the primary role of HR remains strategic management. Understanding the capabilities of analytics is more important than mastering statistics.

- 72.** (D) Data Mining and Decision Support System (DSS) capabilities

Running complex queries on centralized variables like age, gender, and performance to identify gaps or biases utilizes the data mining and decision support capabilities of an information system. These tools allow leaders to examine large data sets for hidden patterns that might indicate systemic issues. By leveraging these functions, human resource officers can move beyond simple reporting to make objective, data-driven policy reviews.

- 73.** (B) Virtual instructor-led training (VILT)

The transition of physical classroom training to an interactive online delivery format is known as virtual instructor-led training. By using digital platforms that allow real-time interaction between a live instructor and remote participants, organizations can maintain the engagement of traditional sessions while removing geographical barriers. This specific format mimics the two-dimensional space of a classroom, enabling active participation and immediate feedback.

- 74.** (D) Monitor & Measure the KM Programme

The use of a balanced scorecard to compare current performance against baseline measurements is the final step of monitoring and measuring a knowledge management program. This phase involves using specific metrics to identify value gaps and evaluate the program's overall effectiveness. By taking corrective actions based on these results, an organization can ensure that its knowledge-sharing initiatives continue to deliver strategic value.

- 75.** (A) HR Analytics

A manager transitioning from simple turnover reports to using talent data for predicting future stayers and gauging engagement is moving toward human resource analytics. Unlike traditional record-keeping, which only describes what happened in the past, analytics focuses on interpreting data to understand why events occur and what might happen next. This predictive approach allows for more proactive and effective workforce management.

76. (D) Compliance approach

When a research team analyzes samples from an information system specifically to identify deviations from mandated laws and company policies, they are using a compliance approach. This methodology ensures that organizational practices adhere to government regulations regarding diversity and inclusion. By systematically checking for legal and policy alignment, the organization can mitigate risks and ensure fair and ethical operations within its personnel functions.

77. (C) Faster delivery of services to clients while making critical information easy for internal staff to find.

Using internal metadata and templates to find existing solutions for complex problems demonstrates how effective knowledge management leads to faster service delivery. Instead of wasting time reinventing a solution, employees can leverage historical information to resolve issues quickly. This not only improves efficiency for the internal staff but also enhances the customer experience by providing timely and accurate support based on proven methods.

78. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Virtual reality offers a specific advantage for training by creating fully immersive, simulated environments that are completely separate from the real world. This allows trainees to practice in dangerous or high-risk scenarios without any physical risk. By providing a safe space for hands-on experience, virtual reality ensures that employees are well-prepared for real-world challenges while maintaining organizational safety and equipment integrity.

79. (B) e-Performance Management

Deploying web-based technologies and computer monitoring tools to evaluate employees across different continents is a form of electronic performance management. This system allows for standardized, transparent evaluations and continuous feedback regardless of an employee's physical location. By utilizing online portals for review writing and data tracking, multinational organizations can ensure that performance

standards are applied consistently and fairly throughout their global workforce.

80. (A) Prepare for change (Cultural change)

Altering an organization's reward structures and norms before launching software is part of the "prepare for change" step in a knowledge management program. This phase focuses on cultural change, ensuring that employees are motivated to share expertise rather than hoarding it. By addressing the "knowledge is power" mindset early, management can minimize resistance and create an environment where technology tools work.

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- (B) 1, 4, 3, 2
- (C) 3, 1, 2, 4
- (D) 1, 2, 3, 4

May/June 2011

- 12.** Consider the following statements regarding the reset of interest rates on advances:
- I. The periodicity of reset under MCLR shall be one year or lower.
 - II. The periodicity of the reset under MCLR shall correspond to the tenor/maturity of the MCLR to which the loan is linked.
 - III. The interest rate under external benchmark shall be reset at least once in three months.
 - IV. The exact periodicity of reset shall form part of the terms of the loan contract.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III only
 - (B) II, III, and IV only
 - (C) I, III, and IV only
 - (D) I, II, III, and IV

Oct/Nov 2024

- 13.** Identify the correct statement regarding the 'Control and Monitoring' component of credit management.
- (A) It is a process strictly limited to the execution of legal documents and the initial loan disbursement.
 - (B) Delays in correcting deviations from projections significantly impair the bank's ability to recover funds.
 - (C) It serves only to monitor fund end-use, as the ultimate safety of the loan is guaranteed by the policy.
 - (D) It is a comprehensive process that replaces the need for any primary or collateral security during appraisal.

May/June 2018

- 14.** A Small Enterprise seeks a working capital limit of Rs. 3 crores from a bank. According to the mandated guidelines for MSEs (for limits up to Rs. 5 crores), how should the bank compute the minimum limit under the Projected Annual Turnover (PAT) method, commonly known as the Nayak Committee method?
- (A) Minimum 10% of their projected annual turnover

- (B) Minimum 20% of their projected annual turnover
- (C) Minimum 25% of their projected annual turnover
- (D) Minimum 30% of their projected annual turnover

Oct/Nov 2006

- 15.** Which of the following accurately conceptualizes the implication of a bank availing 'Refinance' from institutions like NABARD or SIDBI?
- (A) The bank transfers the entire default risk of the eligible advance to the specialized refinancing institution.
 - (B) Refinance removes the requirement for the individual bank to conduct an independent appraisal of the proposal.
 - (C) Refinance provides a guarantee that the borrower's account will never be classified as a Non-Performing Asset.
 - (D) The bank retains credit risk and maintains its independent decision-making authority over the proposal.

May/June 2023

- 16.** Consider the following objectives of the system of reporting irregularities in borrower accounts:
- I. To keep the authority concerned informed of the position of irregular accounts at periodical intervals for the purpose of control/monitoring.
 - II. To seek confirmation from the appropriate authority in respect of irregularity in individual accounts.
 - III. To put forth or evolve a plan of action for regularizing irregularity in the loan account.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

Oct/Nov 2019

- 17.** Consider the following statements regarding the categories included under the Priority Sector as directed by the Reserve Bank of India:
- I. Agriculture
 - II. Micro, Small and Medium Enterprises

- (A) Safety of funds
- (B) Risk spread
- (C) Profitability
- (D) Liquidated damages

May/June 2014

6. Consider the following components used to arrive at the Marginal Cost of Funds Based Lending Rate (MCLR):
- I. Marginal cost of funds
 - II. Negative carry on account of CRR
 - III. Operating costs
 - IV. Tenor premium
- Which of the above statement(s) is/are correct?
- (A) I, II, and III only
 - (B) I, III, and IV only
 - (C) II, III, and IV only
 - (D) I, II, III, and IV

Oct/Nov 2021

7. The laws applicable to different kinds of borrowers are distinct. Identify the INCORRECT pair regarding the type of borrower and its governing law.
- (A) Limited Liability Partnerships - Limited Liability Partnership Act 2008
 - (B) Statutory corporations - Societies Registration Act
 - (C) Trusts - Indian Trusts Act 1882
 - (D) Co-operative Societies - Co-operative Societies Act 1912

May/June 2007

8. External Benchmark-based Lending Rate (EBLR) must be linked to one of several prescribed benchmarks. Which of the following is an INCORRECT option for an EBLR benchmark?
- (A) The average savings bank deposit rate published by the Indian Banks' Association.
 - (B) The official benchmark policy repo rate as periodically announced by the Reserve Bank of India.
 - (C) The yield on Government of India 3-Months Treasury Bills as officially published by the FBIL.
 - (D) The yield on Government of India 6-Months Treasury Bills as officially published by the FBIL.

Oct/Nov 2015

9. Given below are two statements, one labelled as Assertion (A) and the other as Reason (R). Assertion (A): A non-fund-based credit always has a possibility of getting converted into a fund-based credit.
- Reason (R): If a beneficiary invokes a bank guarantee issued on behalf of a contractor, the bank will have to remit the amount, and the client becomes liable to pay this amount to the bank.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

May/June 2025

10. Consider the following categories of loans and advances:
- I. Advances to banks' depositors against their own deposits.
 - II. Advances to banks' own employees including retired employees.
 - III. Advances granted to the Chief Executive Officer/Whole Time Directors.
 - IV. Working Capital Term Loan (WCTL) granted as part of a restructuring package.
 - V. Fixed rate loans of tenor of above three years.
- Which of the above statement(s) is/are correct?
- (A) I, II, and IV only
 - (B) II, III, IV, and V only
 - (C) I, II, III, and V only
 - (D) I, II, III, IV, and V

Oct/Nov 2008

11. Arrange the following components of Credit Management in the correct chronological sequence as generally executed by a bank:
- 1. Formulation of Loan Policy
 - 2. Control and Monitoring
 - 3. Appraisal of the borrower and project
 - 4. Delivery involving documentation and creation of charge
- (A) 1, 3, 4, 2

deviations from legal requirements and internal policies using system samples.

- 53.** (C) Augmented Reality (AR) - Users immerse themselves in a simulated environment, shutting out the real world.

Various information technology training programs serve distinct educational needs. Virtual instructor-led training adapts classroom formats for live online delivery, while e-learning typically involves formalized teaching on digital platforms. Virtual reality provides fully immersive simulations of high-risk environments. In contrast, augmented reality does not shut out the real world; it superimposes digital information onto the user's view of their actual surroundings.

- 54.** (D) I, II, III, and IV

Electronic human resource management enables organizations to conduct several key activities entirely online. This includes electronic recruitment for sourcing candidates and electronic selection for assessing them. Performance management can also be digitized to provide continuous feedback, and compensation systems can be automated to manage salaries and benefits. Together, these online tools create a comprehensive and efficient digital environment for management.

- 55.** (B) II and III

A human resource management system provides benefits to organizations of all sizes, including small startups. It empowers employees by allowing them to manage their own clerical data, which improves accuracy and reduces administrative burden. Additionally, management can use the system to schedule automated reminders and communications. These features ensure that important messages are acknowledged and that routine tasks are handled efficiently.

- 56.** (A) P-3, Q-1, R-2, S-4

A typical human resource information system organizes data into specific categories for easy access. Bio-data includes basic personal details like name and address. Educational qualifications cover degrees and professional certifications. Organizational history tracks employee movements like promotions

and training. Performance data records competencies and appraisal results. This structured approach allows the organization to maintain a comprehensive and searchable database of personnel.

- (D) I, II, III, IV, and V

Implementing a human resource information system offers multiple strategic advantages. It automates routine tasks, allowing professionals to focus on higher-level strategies, and facilitates timely decisions regarding transfers and promotions. The system also simplifies statutory reporting and increases competitiveness by re-engineering processes. By providing an integrated database, it ensures structural connectivity and data consistency across all units within the entire organization.

- 58.** (A) Keeping attendance records - Manually copying physical logbooks to external government ledgers.

Human resource management systems automate many traditional tasks, such as performance evaluation and payroll administration. They also provide self-service tools for employees to update their personal records. However, modern systems do not involve manually copying physical logbooks to external ledgers. Instead, attendance is typically tracked through digital inputs like biometrics, which automatically update the central database without manual transcription.

- 59.** (D) I, II, III, and IV

A strong orientation toward information technology is necessary for modern human resource departments to function effectively. It helps avoid duplicating efforts when sharing data across locations and allows for the storage of broad-based employee profiles. By embedding decisions into databases, objectivity and consistency are improved. Furthermore, these systems are essential for maintaining the records required to demonstrate adherence to various statutory requirements.

- 60.** (B) Only II

Electronic compensation systems leverage web-based technology to move beyond the limitations of a central corporate office. While traditional methods might restrict data to a single location,

III. Export Credit

IV. Social Infrastructure

V. Renewable Energy

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) II, III, IV, and V only
- (C) I, III, IV, and V only
- (D) I, II, III, IV, and V

May/June 2005

18. Consider the following lists regarding Special Mention Account (SMA) categories for term loans:

List I: (Category)

P. SMA-0

Q. SMA-1

R. SMA-2

S. Substandard Asset

List II: (Condition)

1. Principal or interest payment overdue between 31-60 days
2. Remained NPA for a period less than or equal to 12 months
3. Principal or interest payment overdue between 1-30 days
4. Principal or interest payment overdue between 61-90 days

Which of the following is the correct matching?

- (A) P-1, Q-3, R-4, S-2
- (B) P-4, Q-2, R-1, S-3
- (C) P-3, Q-1, R-4, S-2
- (D) P-3, Q-4, R-1, S-2

Oct/Nov 2013

19. A Farmers Producing Company (FPC) that actively undertakes farming operations approaches a domestic commercial bank for a loan. To ensure the loan qualifies entirely under the priority sector for agricultural finance, what is the maximum loan amount the bank can sanction to this FPC for farming?

- (A) Rs. 2 crores
- (B) Rs. 5 crores
- (C) Rs. 50 crores
- (D) Rs. 100 crores

May/June 2019

20. Consider the following statements regarding the Income Recognition norms:

Statement I: Any income from an asset which ceases to yield income for the bank should be

treated as NPA and should not be booked as income until it is actually recovered.

Statement II: In the absence of a clear agreement between the bank and the borrower, booking of interest on account of partial recovery in NPAs can be made as per a board-approved uniform policy.

Which of the following is correct?

- (A) Statement I is correct, but Statement II is incorrect.
- (B) Statement I is incorrect, but Statement II is correct.
- (C) Both Statement I and Statement II are correct.
- (D) Both Statement I and Statement II are incorrect.

Oct/Nov 2025

21. Identify the CORRECT pair concerning the maximum loan limits for classification under Priority Sector Lending.

- (A) Housing loan in metropolitan centres (population ten lakh and above) - Up to Rs. 45 lakh
- (B) Social Infrastructure for building health care facilities in Tier II to Tier VI centres - Up to Rs. 5 crores per borrower
- (C) Educational loans for vocational courses - Up to Rs. 10 lakh
- (D) Renewable Energy for individual households - Up to Rs. 10 lakh per borrower

May/June 2012

22. Consider the following specific conditions under which different types of advance accounts are considered as Non-Performing Assets (NPA):

- I. The account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC).
- II. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
- III. In derivative transactions, the overdue receivables representing positive mark-to-market value remain unpaid for a period of 90 days from the specified due date.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only

Oct/Nov 2005

47. A bank is calculating its Marginal Cost of Funds Based Lending Rate (MCLR). It needs to account for the negative carry on the mandatory Cash Reserve Ratio (CRR). Which of the following formulas correctly calculates this negative carry?
- (A) $\text{Required CRR} \times (\text{marginal cost} / (1 + \text{CRR}))$
- (B) $(\text{Required CRR} - \text{marginal cost}) / (1 - \text{CRR})$
- (C) $\text{Marginal cost} \times (1 - \text{CRR}) / \text{Required CRR}$
- (D) $\text{Required CRR} \times (\text{marginal cost} / (1 - \text{CRR}))$

May/June 2014

48. How is a non-fund-based credit defined in the context of banking?
- (A) It refers to an immediate and actual transfer of liquid funds from the bank to the borrower without collateral.
- (B) It is a loan facility provided by the bank exclusively for the purpose of acquiring fixed assets over the long term.
- (C) It is a specialized credit facility granted entirely in foreign currency without the use of any domestic funds.
- (D) It involves an initial commitment by the bank on behalf of a client that may require a future cash transfer.

Oct/Nov 2021

49. Under the External Benchmark regime, what is the most appropriate regulatory stance regarding the 'Spread' charged over the external benchmark by banks?
- (A) The spread is fixed by the RBI and cannot be altered by the bank during the life of the loan.
- (B) Banks determine the spread, but the risk premium only changes with significant shifts in credit profile.
- (C) The spread must be revised by the bank on a quarterly basis regardless of any changes in credit profile.
- (D) The operating cost component of the spread can be altered every month to reflect current inflation.

May/June 2007

50. Consider the following statements regarding the normal contents of a Bank's Loan Policy:
- I. It contains exposure limits for single counterparty and groups of connected counterparties.
- II. It fixes exposure limits on the basis of risk perception for individual sectors like real estate, capital market, and steel.
- III. It lays down discretionary powers at various levels for sanctioning of credit proposals and allowing over drawings.
- Which of the above statement(s) is/are correct?
- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

Oct/Nov 2015

51. Consider the following statements about the periodicity of charging interest on advances:
- Statement I: The interest at the specified rates on advances should be charged at monthly rests and rounded off to the nearest rupee.
- Statement II: Instructions on charging interest at monthly rates are also strictly applicable to all agricultural advances linked to crop seasons.
- Which of the following is correct?
- (A) Statement I is correct, but Statement II is incorrect.
- (B) Statement I is incorrect, but Statement II is correct.
- (C) Both Statement I and Statement II are correct.
- (D) Both Statement I and Statement II are incorrect.

May/June 2025

52. During the credit appraisal process, a techno-economic feasibility report is often prepared. What is the most appropriate purpose of evaluating this report?
- (A) To evaluate the personal financial net worth of every member of the borrower's extended family unit.
- (B) To officially document the legal delivery and the formal creation of a charge over the collateral security.
- (C) To strictly satisfy the regulatory requirements necessary for the bank to

- (A) Keep the asset classified as substandard until 12 months pass.
- (B) Straightaway classify the asset as a loss asset.
- (C) Straightaway classify the asset under the doubtful category.
- (D) Restructure the account to restore standard classification immediately.

Oct/Nov 2022

- 29.** A manufacturing company holds a standard loan account with a commercial bank. However, the bank discovers that two of the company's directors (who are not nominee directors) appear more than once in the published list of wilful defaulters. What provisioning percentage must the bank maintain on this standard account?
- (A) 0.40%
 - (B) 1%
 - (C) 5%
 - (D) 15%

May/June 2015

- 30.** Consider the following lists regarding standard asset provisioning:
- List I: (Asset Type)
- P. Farm credit for Agriculture Activities
 - Q. Advances to Commercial Real Estate (CRE) Sector
 - R. Advances to Commercial Real Estate-Residential Housing Sector
 - S. All other loans and advances (including Medium Enterprises)
- List II: (Provisioning Norm)
- 1. 0.40%
 - 2. 0.75%
 - 3. 1%
 - 4. 0.25%
- Which of the following is the correct matching?
- (A) P-1, Q-2, R-3, S-4
 - (B) P-4, Q-2, R-3, S-1
 - (C) P-4, Q-3, R-2, S-1
 - (D) P-3, Q-4, R-1, S-2

Oct/Nov 2011

- 31.** An entrepreneur operating an MSE unit approaches a commercial bank seeking simultaneous financing for both working capital and a term loan to purchase new equipment. To facilitate seamless delivery, the bank offers a 'composite loan' limit through

a Single Window. What is the maximum permissible limit for such a composite loan as per the guidelines?

- (A) Rs. 50 lakhs
- (B) Rs. 1 crore
- (C) Rs. 2 crores
- (D) Rs. 5 crores

May/June 2024

- 32.** A personal loan account has slipped into the NPA category and has progressed over the years. It is currently classified under Doubtful II (3rd & 4th Year). Since it is a personal loan, it is completely unsecured. What is the provisioning requirement for this asset?
- (A) 25%
 - (B) 40%
 - (C) 50%
 - (D) 100%

Oct/Nov 2014

- 33.** Consider the following measures recommended to streamline the flow of credit to Micro and Small Enterprises (MSEs) during their 'Life Cycle':
- I. Extend standby credit facility in case of term loans.
 - II. Provide additional working capital to meet with emergent needs of MSE units.
 - III. Conduct mid-term reviews of regular working capital limits requiring an increase based on the actual sales of the previous year.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

May/June 2013

- 34.** To align trading activity (Retail/Wholesale Trade) with other activities of CGS-I, certain parameters were revised. Identify the CORRECT pair reflecting this alignment.
- (A) The extent of guarantee coverage is strictly restricted to exactly 50% for all new accounts.
 - (B) The annual guarantee fee for trading is now substantially higher than all other MSE activities.
 - (C) The coverage for existing enhancements is

Oct/Nov 2019

59. Given below are two statements, one labelled as Assertion (A) and the other as Reason (R). Assertion (A): In respect of an agriculture loan for short duration crops, the account is classified as NPA if the installment of principal or interest remains overdue for two crop seasons.

Reason (R): Agricultural advances follow the practice of charging and compounding interest linked to harvesting and marketing seasons rather than the standard 90-day overdue norm applicable to term loans.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 (C) Assertion (A) is true, but Reason (R) is false.
 (D) Assertion (A) is false, but Reason (R) is true.

May/June 2005

60. A recognized technology start-up, matching the definition of the Ministry of Commerce and Industry, requires financing for business expansion. What is the maximum loan quantum the bank can extend to this start-up while classifying the advance under Priority Sector Lending?
 (A) Rs. 10 crores
 (B) Rs. 20 crores
 (C) Rs. 30 crores
 (D) Rs. 50 crores

Oct/Nov 2013

61. A farmer secured a loan to cultivate sugarcane, which is classified as a long duration crop. The crop was harvested, but the farmer failed to remit the due installment to the bank. For how long must the installment remain overdue for this advance to be classified as an NPA?
 (A) 90 days
 (B) One crop season
 (C) Two crop seasons
 (D) Three crop seasons

May/June 2019

62. The weaker sections under priority sector encompass various designated groups. Which

of the following is NOT an eligible category for classification under Weaker Sections?

- (A) Small and Marginal Farmers
 (B) Beneficiaries of Differential Rate of Interest (DRI) scheme
 (C) Individual women beneficiaries up to Rs. 5 lakh per borrower
 (D) Distressed farmers indebted to non-institutional lenders

Oct/Nov 2025

63. A term loan account begins to default on its EMI payments. Arrange the asset classifications in the chronological order in which the account will transition, assuming the default persists continuously over several years:

1. Doubtful Asset
 2. SMA-1
 3. SMA-2
 4. Substandard Asset
- (A) 1, 2, 3, 4
 (B) 2, 3, 4, 1
 (C) 3, 2, 4, 1
 (D) 2, 4, 3, 1

May/June 2012

64. Consider the following lists regarding bank categories and their Priority Sector targets:

List I: (Category of Bank)

- P. Domestic commercial banks
 Q. Foreign banks with less than 20 branches
 R. Regional Rural Banks
 S. Small Finance Banks

List II: (Total Priority Sector Target)

1. 75 per cent of ANBC (with specific reckoning limits for Medium Enterprises)
2. 40 per cent of ANBC (out of which up to 32% can be for Exports)
3. 75 per cent of ANBC
4. 40 per cent of ANBC

Which of the following is the correct matching?

- (A) P-1, Q-3, R-2, S-4
 (B) P-4, Q-1, R-3, S-2
 (C) P-2, Q-4, R-1, S-3
 (D) P-4, Q-2, R-1, S-3

Oct/Nov 2010

65. Identify the correct statement regarding the classification of Doubtful Assets.

- (A) An asset with all substandard weaknesses plus the trait that full collection is highly questionable.

the Registrar of Companies.

Oct/Nov 2020

41. A large corporate borrower has an Aggregate Sanctioned Credit Limit (ASCL) of Rs. 15,000 crores from the banking system. The corporate intends to raise incremental funds over and above its ASCL. According to market mechanism guidelines, what percentage of the incremental funds raised must be raised from outside the banking system (as the NPLL limits bank funding to the remaining percentage)?
- (A) 25 per cent
 - (B) 40 per cent
 - (C) 50 per cent
 - (D) 60 per cent

May/June 2006

42. The availability of credit enables consumers to spend more than they would have otherwise spent, which drives producers to step up production. However, what is the primary macroeconomic risk if there is excessive availability of credit, particularly for non-productive purposes?
- (A) It results in a sudden and sustained appreciation of the domestic currency in global forex markets.
 - (B) It triggers inflation due to the time lag between rising demand and the eventual creation of supply.
 - (C) It leads to a massive oversupply of capital goods that triggers a series of deep deflationary trends.
 - (D) It forces an automatic reduction in the official Bank rate and Cash Reserve Ratio without oversight.

Oct/Nov 2016

43. A company enjoys an aggregate fund-based working capital limit of Rs. 300 crores from the banking system. To enhance credit discipline among larger borrowers, drawings from the total fund-based working capital limit are restricted. What is the minimum amount that must be structured as the 'loan component' for this borrower?
- (A) Rs. 150 crores
 - (B) Rs. 180 crores
 - (C) Rs. 200 crores
 - (D) Rs. 225 crores

May/June 2009

44. In which year did the nationalisation of banks in India take place?
- (A) 1947
 - (B) 1955
 - (C) 1969
 - (D) 1991

Oct/Nov 2012

45. Given below are two statements, one labelled as Assertion (A) and the other as Reason (R). Assertion (A): The stipulation regarding periodic monthly review and publication of the internal benchmark is not applicable to the External Benchmark-based Rate of interest (EBLR). Reason (R): Banks do not have any influential control over purely external benchmarks, ensuring the policy rates are transmitted to the ultimate consumer in a non-interventionist manner.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

May/June 2022

46. Consider the following lists regarding borrowers and their governing laws:
- List I: (Type of Borrower)
- P. Individuals
 - Q. Partnership firm
 - R. Hindu Undivided Family
 - S. Companies
- List II: (Governing Law)
- 1. Indian Contract Act 1872
 - 2. Hindu Succession Act 1956
 - 3. Companies Act 2013
 - 4. Indian Partnership Act 1932
- Which of the following is the correct matching?
- (A) P-1, Q-4, R-2, S-3
 - (B) P-4, Q-1, R-3, S-2
 - (C) P-1, Q-4, R-2, S-3
 - (D) P-1, Q-2, R-4, S-3

- (C) I and III only
(D) I, II, and III

Oct/Nov 2010

- 23.** Consider the following groups included under the 'Weaker sections' for priority sector lending:
- I. Artisans, village and cottage industries where individual credit limits do not exceed Rs. 1 lakh.
 - II. Scheduled Castes and Scheduled Tribes.
 - III. Self Help Groups.
 - IV. Persons with disabilities.
 - V. Overdraft availed by PMJDY account holders as per prescribed limits.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2016

- 24.** Identify the INCORRECT statement regarding the categories of Non-Performing Assets (NPAs).
- (A) If the realizable value of the security is less than 50 per cent of the value assessed by the bank, the NPA may be straightaway classified under the loss asset category.
 - (B) A substandard asset is one which has remained NPA for a period less than or equal to 12 months.
 - (C) An asset is classified as doubtful if it has remained in the substandard category for a period of 12 months.
 - (D) A loss asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted, although there may be some salvage value.

Oct/Nov 2007

- 25.** Identify the correct statement regarding the common guidelines for priority sector loans.
- (A) Banks must maintain a detailed register of all loan applications, recording the dates and reasons for any rejections.
 - (B) Banks are required to charge a fixed and uniform rate of interest on all priority sector loans regardless of directives.
 - (C) Banks are strictly prohibited from providing formal acknowledgements for

any loan applications received under this sector.

- (D) Loan-related and adhoc service charges must be levied on all priority sector loans to cover the bank's operational costs.

May/June 2020

- 26.** Based on the RBI asset classification norms, how is a 'Substandard Asset' defined?
- (A) An asset that has remained NPA for a period exceeding 12 months but less than 36 months.
 - (B) An asset that has remained NPA for a period less than or equal to 12 months.
 - (C) An asset where the principal is overdue by 31 to 60 days.
 - (D) An asset where the loss has been identified by the internal auditor but not written off.

Oct/Nov 2018

- 27.** Consider the following statements regarding the updated definitions of MSMEs effective from 1st July 2020 under the MSMED Act:
- I. A Micro enterprise is one where investment does not exceed Rs. 1 crore and turnover does not exceed Rs. 5 crores.
 - II. A Small enterprise is one where investment does not exceed Rs. 10 crores and turnover does not exceed Rs. 50 crores.
 - III. A Medium enterprise is one where investment does not exceed Rs. 50 crores and turnover does not exceed Rs. 250 crores.
 - IV. The value of exports shall be excluded while calculating the turnover for enterprise classification.

Which of the above statement(s) is/are correct?

- (A) I and II only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

May/June 2010

- 28.** A bank conducts a valuation of the collateral security for an account currently classified as a substandard asset. The valuer's report concludes that the realizable value of the security has eroded and is now only 40 per cent of the value initially assessed by the bank. What action should the bank take regarding asset classification?

obtain refinance via NABARD.

- (D) To confirm the project is viable enough to ensure the timely repayment of both principal and interest.

Oct/Nov 2008

53. Banks have the freedom to formulate a transparent policy for charging penal interest. However, for loans to borrowers under the priority sector, penal interest should NOT be charged for loans up to what amount?
- (A) Rs. 10,000
(B) Rs. 25,000
(C) Rs. 50,000
(D) Rs. 1,00,000

May/June 2011

54. Given below are two statements, one labelled as Assertion (A) and the other as Reason (R). Assertion (A): If rectification of a credit default is beyond the reach of the borrower, the lender shall next examine the feasibility of restructuring the account. Reason (R): Restructuring provides a long rope to the borrower by offering an elongated repayment period or reduced margins to make the enterprise viable again.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

55. What is the most appropriate underlying idea for introducing the 'Special Mention Accounts (SMAs)' category by the RBI?
- (A) To encourage banks to establish internal systems for the early identification of incipient stress.
(B) To immediately impose strict provisioning norms that are equivalent to those for substandard assets.
(C) To permanently exempt the borrower from the legal obligation of paying the principal loan amount.
(D) To automatically initiate the corporate

bankruptcy and insolvency resolution process at the NCLT.

May/June 2018

56. What is the most appropriate arrangement for monitoring the proper end use of funds to prevent diversion of working capital finance into fixed assets or capital market investments?
- (A) Using progress report scrutiny, site visits, security inspections, and periodical stock audits to track funds.
(B) Relying exclusively on the borrower's verbal assurance regarding fund utilization during the annual review.
(C) Automatically converting the entire working capital loan into a fixed-rate term loan upon disbursement.
(D) Delegating the comprehensive responsibility for end-use monitoring to external credit rating agencies.

Oct/Nov 2006

57. An MSME borrower has a revolving cash credit facility. The outstanding balance in this account remains continuously in excess of the sanctioned limit and drawing power for a period of 45 days. How should the bank classify this account under the Early Warning System?
- (A) SMA-0
(B) SMA-1
(C) SMA-2
(D) Non-Performing Asset (NPA)

May/June 2023

58. Identify the INCORRECT statement regarding the salient features and limits under priority sector lending.
- (A) For crop loans and medium term loans for pre and post harvesting activities, the upper cap is Rs. 2 crores.
(B) The limit for educational loans to individuals for vocational courses is up to Rs. 35 lakh.
(C) Start-ups are eligible for priority sector loans up to Rs. 50 crores as per the definition of the Ministry of Commerce and Industry.
(D) Bank loans up to a limit of Rs. 30 crores to borrowers for solar based power generators are classified under Renewable Energy.

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upgraded automatically to 85% to match standards.

- (D) The ceiling of credit guarantee cover was increased from Rs. 100 Lakhs up to Rs. 200 Lakhs.

Oct/Nov 2023

35. How is 'Large exposure' formally defined under the Large Exposure Framework (LEF) guidelines implemented by the RBI?
- (A) The sum of all exposure values to a counterparty or group equal to or above 10% of the bank's Tier-1 Capital.
- (B) The sum of all exposure values of the bank to a counterparty equal to or above 5% of the bank's total capital funds.
- (C) An individual loan sanctioned to a specified corporate borrower that exceeds a threshold of Rs. 10,000 crores.
- (D) An aggregate sanctioned credit limit extending beyond 60 per cent of the bank's total net worth as per the audit.

May/June 2021

36. In view of complaints regarding inadequate due diligence during the transfer of borrowal accounts, RBI issued guidelines advising banks to establish a Board approved policy. Which of the following is NOT typically a norm included in this policy?
- (A) Authority levels for sanction of takeover
- (B) Immediate conversion of the transferred term loan into a non-fund-based guarantee
- (C) Credit audit of taken over accounts
- (D) Examination of staff accountability in case of quick mortality of such cases after takeover

Oct/Nov 2009

37. A commercial bank possesses an eligible Tier-1 capital base of Rs. 2,000 crores. A single Non-Banking Financial Company (NBFC) applies for credit facilities. Under the large exposure framework limits, what is the maximum restricted exposure the bank can generally take on this single NBFC?
- (A) Rs. 200 crores
- (B) Rs. 400 crores
- (C) Rs. 500 crores
- (D) Rs. 1,000 crores

May/June 2008

38. As part of the Fair Practices Code, banks are advised to transparently disclose 'all in cost' inclusive of all charges involved in processing/sanctioning of a loan. Which of the following is NOT an item required to be disclosed to the borrower under this specific transparency mandate?
- (A) The specific amount of fees refundable to the borrower if the loan is not sanctioned or disbursed.
- (B) The full range of pre-payment options available to the borrower along with any penalty charges.
- (C) The detailed schedule of penalties and interest charges that apply in the event of late repayments.
- (D) The internal mathematical models used by the bank to predict its future competitive strengths.

Oct/Nov 2017

39. The LE framework exempts certain exposures from its limits. Which of the following is NOT an exempted exposure under the framework?
- (A) Exposures to foreign sovereigns denominated in the domestic currency of that sovereign.
- (B) Exposures to major private corporate entities engaged in greenfield infrastructure projects.
- (C) Intra-day interbank exposures.
- (D) Deposits maintained with NABARD on account of shortfall in achievement of priority sector lending targets.

May/June 2017

40. What conceptual role does the analysis of financial statements (both past and projected) primarily serve during the appraisal of a credit proposal?
- (A) It assists the bank in evaluating project viability and determining the appropriate credit requirement.
- (B) It is used strictly to determine the statutory corporate tax liability of the borrower for the current year.
- (C) It eliminates all inherent risks associated with non-performing assets by guaranteeing project success.
- (D) It provides the sole legal basis for registering the borrower's company with

- (B) An asset that automatically becomes doubtful if any portion of the principal remains overdue for 90 days.
- (C) An asset that is classified as doubtful if the realizable value of security falls below 10 per cent of the loan.
- (D) An asset that can be moved into the doubtful category only after it completes 3 years in the sub-standard category.

May/June 2016

66. As per the common guidelines for priority sector loans, up to what loan amount should no loan-related and adhoc service charges or inspection charges be levied?
- (A) Rs. 10,000
 - (B) Rs. 25,000
 - (C) Rs. 50,000
 - (D) Rs. 1,00,000

Oct/Nov 2007

67. Which of the following is the most appropriate characteristic denoting a 'Loss Asset'?
- (A) An account showing signs of incipient stress where interest has remained overdue for 61-90 days.
 - (B) An asset that has remained in the substandard category for a period of exactly 6 months.
 - (C) An asset where the realizable value of the security is less than 50 per cent but greater than 10 per cent.
 - (D) An asset considered uncollectible where the loss has been identified but not yet written off entirely.

May/June 2020

68. Consider the following lists regarding MSME enterprise thresholds:

List I: (Type)

- P. Micro Enterprise Investment
- Q. Micro Enterprise Turnover
- R. Small Enterprise Investment
- S. Small Enterprise Turnover

List II: (Threshold)

- 1. Rs. 5 crores
- 2. Rs. 1 crore
- 3. Rs. 10 crores
- 4. Rs. 50 crores

Which of the following is the correct matching?

- (A) P-1, Q-2, R-4, S-3
- (B) P-3, Q-4, R-1, S-2

- (C) P-2, Q-3, R-1, S-4
- (D) P-2, Q-1, R-3, S-4

Oct/Nov 2018

69. Identify the INCORRECT pair regarding the normal provisioning percentage on NPA accounts.
- (A) Doubtful I (2nd Year) secured portion - 25%
 - (B) Sub-Standard (Secured) 0 to 1 year - 10%
 - (C) Doubtful II (3rd & 4th Year) unsecured portion - 100%
 - (D) Doubtful III (5th year onwards) - 100%

May/June 2010

70. Consider the following statements regarding collateral requirements for loans to the MSE sector:

Statement I: Banks are mandated not to accept collateral security in the case of loans up to Rs. 10 lakh extended to units in the MSE sector.

Statement II: Based on a good track record and financial position, banks may increase the limit to dispense with the collateral requirement for loans up to Rs. 25 lakh with the approval of the appropriate authority.

Which of the following is correct?

- (A) Statement I is correct, but Statement II is incorrect.
- (B) Statement I is incorrect, but Statement II is correct.
- (C) Both Statement I and Statement II are correct.
- (D) Both Statement I and Statement II are incorrect.

Oct/Nov 2022

71. A corporate loan account is classified as Sub-Standard (Secured). The account has remained in this sub-standard category for 9 months. Under the accelerated provisioning norms, what is the required provisioning percentage?
- (A) 15%
 - (B) 20%
 - (C) 25%
 - (D) 40%

May/June 2015

72. As per the Priority Sector guidelines, how is the General Credit Card (GCC) scheme primarily defined based on its objective?

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- (A) A credit facility designed to increase credit flow for entrepreneurial activities in the non-farm sector.
- (B) A credit scheme designed exclusively to meet the basic consumption needs of employees in the corporate sector.
- (C) A mandatory facility that must be provided to small farmers specifically for purchasing agricultural land.
- (D) A specialized credit card issued by banks only for the purpose of facilitating large-scale export financing.

Oct/Nov 2011

- 73.** Identify the INCORRECT statement concerning the Credit Exposures Norms.
- (A) The exposure ceiling limit for a single counterparty is 20 per cent of tier-1 capital.
 - (B) Banks' exposures to a single NBFC will be restricted to 25 per cent of their Tier-1 capital under normal circumstances.
 - (C) The exposure ceiling limit for a group of interconnected counterparties is 25 per cent of tier-1 capital.
 - (D) Identification of possible connected counterparties based on economic interdependence is mandatory if the sum of all exposures exceeds 5% of the eligible capital base.

May/June 2024

- 74.** Consider the following statements regarding the extent of guarantee coverage provided by the trust under the Credit Guarantee Scheme:
- I. For Micro Enterprises with credit facility up to Rs. 5 Lakhs, the guarantee coverage is 85%.
 - II. For Women Entrepreneurs, the guarantee coverage is uniformly 85%.
 - III. For MSEs situated in an Aspirational District, the guarantee coverage is 85%.
 - IV. For ZED certified MSEs, the guarantee coverage is 85%.
 - V. For all other categories of borrowers, the guarantee coverage is 75%.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III only
 - (B) II, III, IV, and V only
 - (C) I, IV, and V only
 - (D) I, II, III, IV, and V

Oct/Nov 2014

- 75.** Consider the criteria used to deem two or more natural or legal persons as a 'group of connected counterparties':
- I. Control relationship where one counterparty directly or indirectly has control over the other.
 - II. Economic interdependence where funding or repayment difficulties of one are likely to cause similar difficulties for the other.
 - III. Entities connected with the sovereign are fully exempted from the definition of a group of connected counterparties.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) I and III only
 - (C) II and III only
 - (D) I, II, and III

May/June 2013

- 76.** Consider the following statements regarding the Look Through Approach (LTA) and exemptions under the Large Exposure Framework (LEF):
- I. LTA has been made mandatory in determining relevant counterparties in collective investment undertakings and securitisation vehicles.
 - II. If the total amount of a bank's exposure to a structure does not exceed 0.25 per cent of its Tier-I capital, it may assign the total exposure amount to the structure itself.
 - III. If the exposure exceeds 0.25 per cent, the bank should assign this total exposure amount to the unknown client.
 - IV. LE framework exempts exposures to the Government of India and State Governments.
 - V. Bank's clearing related exposure to Qualifying Central Counter Parties (QCCPs) is exempted.
- Which of the above statement(s) is/are correct?
- (A) I, II, IV, and V only
 - (B) I, III, IV, and V only
 - (C) II, III, and IV only
 - (D) I, II, III, IV, and V

Oct/Nov 2023

- 77.** Identify the correct statement regarding Statutory and Other Restrictions on credit.

- (A) Banks are freely permitted to advance loans against the security of their own shares.
- (B) There are no regulatory prohibitions on banks financing the promoter's contribution for setting up an industry.
- (C) Banks can freely grant credit facilities to stock and commodity brokers without any restrictions.
- (D) Banks are prohibited from granting advances to units using chlorofluorocarbons in the manufacturing process.

MSMED Act 2006 guidelines updated in July 2020, under which category does this entity belong?

- (A) Micro Enterprise
- (B) Small Enterprise
- (C) Medium Enterprise
- (D) Large Enterprise

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May/June 2021

78. Consider the following areas pertaining to the Fair Practices Code guidelines issued by the RBI:
- I. Application for loans and their processing
 - II. Loan appraisal and terms/conditions
 - III. Disbursements of loans
 - IV. Post disbursement supervision
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) I, II, and III only
 - (C) II, III, and IV only
 - (D) I, II, III, and IV

Oct/Nov 2009

79. What is the fundamental conceptual objective behind the RBI prescribing elaborate Income Recognition and Asset Classification (IRAC) guidelines?
- (A) To maximize the annual dividend distribution to shareholders by inflating accrued interest incomes.
 - (B) To ensure financial stability and protect depositors by mandating a fair view of bank finances.
 - (C) To enable banks to lend to all priority sectors without the requirement of obtaining collateral security.
 - (D) To ensure that all external benchmarks strictly trace every change in the official policy repo rate.

NODIA

May/June 2008

80. A newly established manufacturing entity has an investment in plant and machinery of Rs. 8 crores. It recorded a gross annual turnover of Rs. 48 crores, out of which Rs. 6 crores were derived from direct exports. According to the

that banks do not have excessive concentration risk toward any individual or entity.

36. (B) Immediate conversion of the transferred term loan into a non-fund-based guarantee
Banks must have a board-approved policy for taking over borrowal accounts from other banks. This policy typically includes authority levels for sanctions, credit audits of the taken-over accounts, and staff accountability for quick mortality cases. Converting a term loan into a non-fund-based guarantee is not a standard requirement and does not align with typical takeover procedures.
37. (B) Rs. 400 crores
Under the Large Exposure Framework, a bank's exposure to a single Non-Banking Financial Company is generally restricted. The limit is set at twenty per cent of the bank's Tier-1 capital. For a bank with a Tier-1 capital base of two thousand crores, the maximum permissible exposure to a single NBFC would therefore be four hundred crore rupees to manage risk.
38. (D) The internal mathematical models used by the bank to predict its future competitive strengths.
The Fair Practices Code mandates the disclosure of all-in costs to borrowers. This includes refundable fees if the loan is not disbursed, pre-payment options with penalties, and details of late payment charges. However, banks are not required to disclose internal mathematical models used for competitive strategy. Transparency is intended to protect the consumer's interests and ensure informed financial decisions.
39. (B) Exposures to major private corporate entities engaged in greenfield infrastructure projects.
Certain exposures are exempt from the Large Exposure Framework limits to facilitate specific economic activities. These include exposures to sovereigns, intra-day interbank exposures, and mandatory deposits with NABARD for priority sector shortfalls. Loans to large private corporate entities for infrastructure projects are not exempted and must adhere to the standard concentration limits to prevent systemic financial risk.
40. (A) It assists the bank in evaluating project viability and determining the appropriate credit requirement.
Analyzing financial statements is a critical part of credit appraisal. It allows the bank to evaluate the viability of the proposed project and determine the actual credit requirement of the borrower. This process involves looking at historical performance and future projections to ensure that the business can generate sufficient cash flows to meet its debt obligations on time.
41. (C) 50 per cent
For large corporate borrowers with an ASCL exceeding ten thousand crores, the incremental exposure beyond this limit is subject to specific rules. Such borrowers must raise fifty per cent of their incremental funds from outside the banking system through market mechanisms. This policy reduces the banking system's concentration risk and encourages large corporates to utilize the corporate bond market.
42. (B) It triggers inflation due to the time lag between rising demand and the eventual creation of supply.
While credit drives production and consumption, excessive availability for non-productive purposes poses macroeconomic risks. It primarily triggers inflation because demand rises immediately while the supply of goods and services takes time to increase. This imbalance between money supply and available output devalues the currency's purchasing power and can lead to economic instability if not managed by central banks.
43. (B) Rs. 180 crores
For large borrowers with aggregate fund-based working capital limits of one hundred fifty crores and above, credit discipline is strictly enforced. Sixty per cent of the total sanctioned limit must be structured as a loan component. For a limit of three hundred crores, this equates to one hundred eighty crores. This structure ensures better monitoring of fund utilization and interest rate transmission.
44. (C) 1969
The nationalisation of fourteen major commercial banks in India took place in 1969.

9. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Non-fund-based facilities like bank guarantees or letters of credit carry a risk of conversion into fund-based credit. If a beneficiary invokes a guarantee because of client default, the bank must pay the amount immediately. This creates a debt from the client to the bank, effectively transforming a contingent liability into an actual funded advance.

10. (D) I, II, III, IV, and V

Lending rate guidelines apply broadly across various credit types. This includes advances against deposits, loans to bank employees, and credit to top executives. Additionally, restructured loans like working capital term loans and long-term fixed-rate loans exceeding three years fall under these frameworks. These rules ensure consistency in interest rate pricing and regulatory compliance across diverse portfolios.

11. (A) 1, 3, 4, 2

The systematic process of managing credit begins with formulating a loan policy. Next, the bank conducts a thorough appraisal of the borrower and the project. Once approved, delivery occurs through legal documentation and the creation of a charge. Finally, continuous control and monitoring are performed throughout the loan's life to ensure timely repayment.

12. (D) I, II, III, and IV

Reset periods are crucial for interest rate transparency. MCLR-linked loans must be reset at intervals of one year or less, matching the specific tenor used. External benchmark rates require a reset at least once every three months. These reset terms must be explicitly mentioned in the loan contract to keep the borrower informed of potential changes.

13. (B) Delays in correcting deviations from projections significantly impair the bank's ability to recover funds.

Control and monitoring are vital for detecting early signs of credit deterioration. Delays in addressing deviations from projected performance can severely limit a bank's recovery options. This process involves regular

inspections and scrutiny to ensure the borrower maintains financial health. It is an ongoing activity that persists until the entire loan is repaid by the client.

14. (B) Minimum 20% of their projected annual turnover

The Projected Annual Turnover method is mandated for Micro and Small Enterprises with limits up to five crores. Banks must provide a minimum working capital limit of twenty per cent of the projected annual turnover. The unit contributes five per cent as margin, ensuring a total working capital cycle coverage of twenty-five per cent for smooth operations.

15. (D) The bank retains credit risk and maintains its independent decision-making authority over the proposal.

Availing refinance from institutions like NABARD or SIDBI provides liquidity to the lending bank. However, the primary bank retains all credit risk and responsibility for the loan's recovery. Refinance does not replace the bank's independent appraisal process or decision-making authority. The bank remains fully liable to the refinancing institution even if the ultimate borrower defaults.

16. (D) I, II, and III

Reporting irregular accounts serves several management objectives. It informs senior authorities about the status of stressed accounts at regular intervals. This system facilitates seeking formal confirmation for specific irregularities and helps in evolving effective action plans for regularization. Such reporting is essential for maintaining asset quality and ensuring timely intervention to prevent further slippage into NPA.

17. (D) I, II, III, IV, and V

The Reserve Bank of India defines specific sectors that require targeted credit flow. These include agriculture, micro, small, and medium enterprises, and export credit. Additionally, investments in social infrastructure and renewable energy are classified as priority sectors. These categories are prioritized to ensure balanced economic growth and support for critical segments of the national economy.

portion of Doubtful I assets, the provision is twenty-five per cent. Doubtful II and III require much higher provisions. For substandard assets that are secured, the standard provisioning rate is fifteen per cent. Stating that the provision for a secured substandard asset is ten per cent is an incorrect pair.

- 70.** (C) Both Statement I and Statement II are correct.

Banks are mandated to provide collateral-free loans to the Micro and Small Enterprise sector for amounts up to ten lakh rupees. Furthermore, based on a good track record and the financial position of the MSE unit, banks have the discretion to increase this limit for dispensing with collateral requirements up to twenty-five lakh rupees. This policy facilitates easier access to credit for small business owners.

- 71.** (C) 25%

Accelerated provisioning norms apply when there is a delay in implementing a resolution plan or during specific stress periods. For a corporate loan account that has remained in the substandard unsecured category for more than six months but less than twelve months, the provisioning requirement increases. In this specific scenario of nine months, the required provisioning percentage for the unsecured portion is twenty-five per cent.

- 72.** (A) A credit facility designed to increase credit flow for entrepreneurial activities in the non-farm sector.

The General Credit Card scheme is designed to enhance the flow of credit to individuals for entrepreneurial activities in the non-farm sector. It provides a flexible credit facility to meet both working capital and consumption needs of small entrepreneurs. This scheme is part of the broader effort to promote financial inclusion and support self-employment in rural and semi-urban areas of the country.

- 73.** (B) Banks' exposures to a single NBFC will be restricted to 25 per cent of their Tier-1 capital under normal circumstances.

The Large Exposure Framework limits a bank's exposure to single and group counterparties. The ceiling for a single counterparty is twenty per cent of Tier-1 capital, and for a group,

it is twenty-five per cent. However, the limit for a single NBFC is specifically restricted to twenty per cent, not twenty-five per cent. This lower limit manages the interconnectedness risk within the financial system.

- 74.** (D) I, II, III, IV, and V

The Credit Guarantee Scheme provides varying levels of coverage for MSEs. An eighty-five per cent guarantee coverage is available for micro-enterprises with facilities up to five lakhs, women entrepreneurs, units in aspirational districts, and ZED-certified enterprises. For most other categories of borrowers, the coverage is seventy-five per cent. These higher coverage levels encourage banks to lend to specific priority segments within the MSE sector.

- 75.** (D) I, II, and III

Two or more persons are considered a group of connected counterparties if they share a control relationship or are economically interdependent. This means the financial distress of one could impact the other's ability to repay. While private entities are closely monitored, entities connected with the sovereign are generally exempted from being grouped with the sovereign itself under this specific definition for concentration risk.

- 76.** (D) I, II, III, IV, and V

The Look Through Approach is mandatory for determining relevant counterparties in complex structures like securitisation vehicles. If a bank's exposure to such a structure is small, below zero point two five per cent of Tier-1 capital, it can assign the exposure to the structure. Otherwise, it must assign it to the unknown client. The framework also exempts exposures to the government and qualifying central counterparties.

- 77.** (D) Banks are prohibited from granting advances to units using chlorofluorocarbons in the manufacturing process.

Banks face several statutory and regulatory restrictions on lending. They cannot lend against their own shares or finance promoter contributions for new industries. While some activities are restricted, a total prohibition exists for granting advances to manufacturing units that use chlorofluorocarbons. This restriction

specific provisioning to account for the inherent risks associated with the delay in repayment.

27. (D) I, II, III, and IV

Updated MSME definitions use composite criteria of investment and turnover. Micro units have limits of one crore investment and five crores turnover. Small units are capped at ten crores investment and fifty crores turnover. Medium units reach fifty crores investment and two hundred fifty crores turnover. Notably, export turnover is excluded from these calculations to encourage international trade by enterprises.

28. (C) Straightaway classify the asset under the doubtful category.

Significant erosion in the value of collateral security necessitates immediate reclassification of the asset. If the realizable value of the security falls below fifty per cent of the value assessed by the bank, the account must be classified directly as a doubtful asset. This rule applies even if the asset has not yet completed the typical substandard period of twelve months.

29. (C) 5%

Banks must maintain higher provisions for standard accounts where directors are listed as wilful defaulters. If two or more directors (excluding nominee directors) appear on the wilful defaulter list, the provisioning requirement for that standard account increases to five per cent. This measure serves as a prudential safeguard against the increased risk associated with the management of the borrowing entity.

30. (C) P-4, Q-3, R-2, S-1

Provisioning rates vary across different standard asset types. Farm credit for agriculture requires zero point two five per cent. Commercial Real Estate (CRE) involves a higher rate of one per cent. CRE-Residential Housing is set at zero point seven five per cent. All other standard loans, including those for medium enterprises, generally require a provision of zero point four zero per cent.

31. (B) Rs. 1 crore

To simplify credit for Micro and Small Enterprises, banks offer composite loans via a single window. This facility covers both

working capital and term loan requirements for purchasing equipment or machinery. The maximum limit for a composite loan is one crore rupees. This integrated approach reduces the administrative burden for entrepreneurs and ensures timely availability of necessary funds.

32. (D) 100%

Provisioning for non-performing assets depends on the duration of default and the availability of security. For an unsecured loan in the Doubtful II category, the bank must provide one hundred per cent of the outstanding balance. Since there is no collateral to offset potential losses, the entire amount is considered at risk, necessitating full provisioning to protect the bank's capital.

33. (D) I, II, and III

Streamlining credit to Micro and Small Enterprises involves various lifecycle measures. Banks should provide standby credit facilities for term loans and additional working capital for emergent needs. Mid-term reviews should be conducted to adjust working capital limits based on actual sales performance. These steps ensure that small units have adequate liquidity to manage growth and operational challenges effectively.

34. (D) The ceiling of credit guarantee cover was increased from Rs. 100 Lakhs up to Rs. 200 Lakhs.

Recent revisions to the Credit Guarantee Scheme for Micro and Small Enterprises have aligned trading activities with other sectors. One significant change is the increase in the ceiling for credit guarantee coverage. The limit was raised from two hundred lakhs up to five hundred lakhs. This expansion provides better risk mitigation for banks and improves the flow of credit to traders.

35. (A) The sum of all exposure values to a counterparty or group equal to or above 10% of the bank's Tier-1 Capital.

A large exposure is formally defined under the RBI framework as the sum of all exposure values to a single counterparty or a group of connected counterparties. This value must be equal to or exceed ten per cent of the bank's eligible Tier-1 capital. This monitoring ensures

to cover operational costs and ensure the timely repayment of the principal and interest to the lending bank, thereby minimizing the risk of default.

53. (B) Rs. 25,000

Banks are permitted to charge penal interest for defaults or non-compliance with loan terms. However, to support small borrowers under the priority sector, the Reserve Bank of India has mandated that no penal interest should be charged on loans up to twenty-five thousand rupees. This exemption reduces the financial burden on micro-borrowers who may face temporary difficulties in meeting their repayment schedules.

54. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

When a borrower cannot rectify a default due to genuine difficulties, banks examine the feasibility of restructuring. Restructuring involves modifying the loan terms, such as extending the repayment period or reducing margins, to make the enterprise viable again. This process provides a long rope to the borrower, allowing them more time and better conditions to recover and fulfill their financial obligations.

55. (A) To encourage banks to establish internal systems for the early identification of incipient stress.

The Special Mention Account category was introduced to facilitate the early identification of financial stress in borrower accounts. By categorizing accounts based on the duration of overdues before they become NPAs, banks can take proactive steps to prevent further deterioration. This system encourages timely intervention, such as restructuring or corrective action plans, to maintain asset quality within the banking system.

56. (A) Using progress report scrutiny, site visits, security inspections, and periodical stock audits to track funds.

Ensuring the proper end use of funds is a vital part of credit monitoring. Banks use various methods, including site visits, security inspections, and periodical stock audits, to

track how funds are utilized. This prevents the diversion of working capital into unauthorized areas like fixed assets or speculative investments. Such oversight is necessary to ensure that the loan serves its intended business purpose.

57. (B) SMA-1

For revolving credit facilities like cash credit, the out of order status determines the SMA classification. If the outstanding balance remains continuously in excess of the sanctioned limit or drawing power for a period between thirty-one and sixty days, the account is classified as SMA-1. This classification serves as an early warning signal of potential repayment issues that require closer monitoring.

58. (B) The limit for educational loans to individuals for vocational courses is up to Rs. 35 lakh.

Priority sector lending guidelines specify various limits for different activities. While start-ups and renewable energy projects have defined caps, educational loans to individuals have a specific limit for classification. The limit for educational loans, including those for vocational courses, is up to twenty lakh rupees. Stating a limit of thirty-five lakh rupees for vocational courses is incorrect according to the current regulatory framework.

59. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Agricultural loans for short-duration crops follow different NPA norms compared to commercial loans. An account is classified as non-performing if the installment of principal or interest remains overdue for two crop seasons. This practice acknowledges that farmers' income is seasonal, depending on harvesting and marketing, rather than the monthly or ninety-day cycles used for other types of bank credit.

60. (D) Rs. 50 crores

Loans to recognized start-ups are eligible for priority sector classification under specific conditions. To qualify, the start-up must meet the definition provided by the Ministry of Commerce and Industry. The maximum loan amount that can be extended to such a start-up while remaining within the priority

This landmark event was intended to align the banking sector with the socialist objectives of the government. It aimed to expand the branch network into rural areas and ensure that credit was directed toward agriculture and small-scale industries rather than just being concentrated in urban centers.

45. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

External Benchmark-based Lending Rates do not require the same monthly internal review as MCLR because banks do not control external markers like the repo rate. These benchmarks are determined by market forces or the central bank, ensuring that monetary policy changes are transmitted to borrowers without bank intervention. This transparency helps in achieving the desired impact of interest rate adjustments.

46. (C) P-1, Q-4, R-2, S-3

Different types of borrowers are subject to various legal frameworks in India. Individuals and partnership firms are governed by the Indian Contract Act and the Indian Partnership Act, respectively. Hindu Undivided Families fall under the Hindu Succession Act regarding ancestral property and succession. Companies are incorporated and regulated under the Companies Act 2013, which defines their legal powers and obligations.

47. (D) $\text{Required CRR} \times (\text{marginal cost} / (1 - \text{CRR}))$

Banks must maintain a Cash Reserve Ratio with the RBI, which earns no interest, creating a negative carry. To account for this in the MCLR, the formula used is the required CRR multiplied by the marginal cost, divided by one minus the CRR. This calculation ensures the cost of keeping these idle funds is factored into the bank's lending rate.

48. (D) It involves an initial commitment by the bank on behalf of a client that may require a future cash transfer.

Non-fund-based credit involves a commitment by the bank to pay a third party on behalf of its client under specific circumstances. Unlike fund-based credit, there is no immediate

transfer of money to the borrower. Instead, the bank issues instruments like guarantees or letters of credit. Cash is only transferred if the client fails to meet their obligations and the beneficiary invokes the instrument.

49. (B) Banks determine the spread, but the risk premium only changes with significant shifts in credit profile.

Under the external benchmark regime, banks have the flexibility to determine the spread over the benchmark. However, the risk premium component of this spread should only be changed if there is a significant shift in the borrower's credit profile. This ensures that the interest rate remains relatively stable for the borrower unless their underlying creditworthiness undergoes a material change during the loan.

50. (D) I, II, and III

A bank's loan policy is a comprehensive document that guides its lending operations. It includes exposure limits for single and group counterparties to prevent concentration. The policy also sets limits for specific sectors based on risk perception and defines the discretionary powers of various officials for loan sanctions. These rules ensure that credit is granted within a structured and prudent framework.

51. (A) Statement I is correct, but Statement II is incorrect.

Standard banking practice requires interest on advances to be charged at monthly rests and rounded to the nearest rupee. However, this monthly requirement does not apply to agricultural advances linked to crop seasons. For such loans, interest charging and compounding are aligned with the harvesting and marketing periods of the crops, reflecting the specific cash flow patterns of the farming community.

52. (D) To confirm the project is viable enough to ensure the timely repayment of both principal and interest.

The techno-economic feasibility report is essential for appraising industrial and infrastructure projects. It evaluates the technical viability and the economic potential of the venture. The primary purpose is to confirm that the project will generate sufficient revenue

18. (C) P-3, Q-1, R-4, S-2

Special Mention Account categories identify incipient stress in term loans based on overdue duration. SMA-0 accounts have payments overdue between one and thirty days. SMA-1 covers thirty-one to sixty days, while SMA-2 covers sixty-one to ninety days. Once an asset remains in the non-performing category for up to twelve months, it is classified as a substandard asset.

19. (B) Rs. 5 crores

Loans to Farmer Producing Companies for farming activities are eligible for priority sector classification. The maximum limit for such loans to be categorized as agricultural finance is five crore rupees. This support encourages organized farming and collective bargaining for small farmers. Loans exceeding this threshold may not qualify under the specific agricultural priority sector sub-target for banks.

20. (C) Both Statement I and Statement II are correct.

Income recognition is based on actual recovery for non-performing assets. When an asset ceases to yield income, it is classified as an NPA, and interest should not be recognized until realized. For partial recoveries, banks must follow a board-approved policy if a clear agreement with the borrower is absent. This ensures conservative and realistic financial reporting by banks.

21. (D) Renewable Energy for individual households - Up to Rs. 10 lakh per borrower

Priority sector lending guidelines set specific thresholds for various categories. For renewable energy, individual households can receive loans up to ten lakh rupees per borrower. In contrast, housing loans in metropolitan centers have much higher limits. Accurate classification requires adhering to these specific caps, which are periodically reviewed by the Reserve Bank of India to meet economic needs.

22. (D) I, II, and III

An asset becomes non-performing under specific conditions. For overdrafts or cash credits, the account is deemed out of order if it exceeds limits continuously. Bills purchased become NPAs if overdue for more than ninety days.

Similarly, in derivative transactions, overdue receivables with positive mark-to-market value must be paid within ninety days to avoid being classified as non-performing assets.

23. (D) I, II, III, IV, and V

The weaker sections category includes specific vulnerable groups for priority lending. This includes Scheduled Castes, Scheduled Tribes, and persons with disabilities. Small artisans with credit limits up to one lakh and Self-Help Groups also qualify. Additionally, overdrafts under the PMJDY scheme within prescribed limits are included. These targets ensure that credit reaches the most disadvantaged segments of society.

24. (A) If the realizable value of the security is less than 50 per cent of the value assessed by the bank, the NPA may be straightaway classified under the loss asset category.

Asset classification depends on the duration of default and security value. Substandard assets remain NPAs for twelve months or less, after which they become doubtful. Loss assets are those identified as uncollectible by auditors. However, if the realizable value of security falls below fifty per cent, the asset is classified as doubtful, not immediately as a loss asset.

25. (A) Banks must maintain a detailed register of all loan applications, recording the dates and reasons for any rejections.

Banks must follow standardized procedures for priority sector loans. This includes maintaining a detailed register for all loan applications to record receipt dates and specific reasons for any rejections. Providing formal acknowledgments to applicants is mandatory. These practices ensure transparency, accountability, and fair treatment for small borrowers seeking credit under the mandated priority sector categories.

26. (B) An asset that has remained NPA for a period less than or equal to 12 months.

According to RBI asset classification norms, a substandard asset is one that has been classified as a non-performing asset for a period less than or equal to twelve months. Such assets have well-defined credit weaknesses that jeopardize the liquidation of the debt. They require

sector lending category is fifty crore rupees. This support helps new ventures scale their operations.

61. (B) One crop season

For agricultural loans granted for long-duration crops, the NPA classification is based on the crop season. Sugarcane is typically classified as a long-duration crop. In such cases, the loan account is categorized as a non-performing asset if the installment of principal or interest remains overdue for one crop season. This differs from short-duration crops, which allow for two seasons of default.

62. (C) Individual women beneficiaries up to Rs. 5 lakh per borrower

The weaker sections category includes small farmers, DRI scheme beneficiaries, and distressed farmers. Individual women beneficiaries are also included, but only up to a limit of one lakh rupees per borrower. A limit of five lakh rupees is incorrect for this specific classification. These sub-targets ensure that credit is funneled toward the most economically and socially vulnerable groups in society.

63. (B) 2, 3, 4, 1

A term loan account in continuous default transitions through specific stages. Initially, it becomes SMA-1 after thirty days of overdue. After sixty days, it moves to SMA-2. If the default persists beyond ninety days, the asset is classified as a substandard asset. Finally, after remaining substandard for twelve months, the account is categorized as a doubtful asset, requiring higher bank provisions.

64. (D) P-4, Q-2, R-1, S-3

Priority sector targets vary by bank type. Domestic commercial banks and foreign banks with more than twenty branches must meet a forty per cent target. Regional Rural Banks and Small Finance Banks have a higher target of seventy-five per cent of Adjusted Net Bank Credit. Foreign banks with fewer than twenty branches also have a forty per cent target, with flexibility regarding export credit components.

65. (A) An asset with all substandard weaknesses plus the trait that full collection is highly questionable.

A doubtful asset possesses all the weaknesses inherent in a substandard asset, with the added characteristic that the weaknesses make full collection or liquidation highly questionable and improbable. An asset moves from substandard to doubtful after it has remained in the substandard category for a period of twelve months. This classification reflects a higher degree of risk and necessitates increased provisioning by the bank.

66. (B) Rs. 25,000

To reduce the cost of borrowing for small-scale projects under the priority sector, banks are prohibited from levying certain fees. No loan-related or adhoc service charges, nor inspection charges, should be charged on priority sector loans up to twenty-five thousand rupees. This guideline ensures that the benefits of priority lending are not offset by administrative costs for the smallest category of borrowers.

67. (D) An asset considered uncollectible where the loss has been identified but not yet written off entirely.

A loss asset is one where the loss has been identified by the bank, internal or external auditors, or the Reserve Bank inspectors, but the amount has not been written off entirely. Such assets are considered uncollectible and of such little value that their continuance as bankable assets is not warranted, even though there might be some scrap or salvage value.

68. (D) P-2, Q-1, R-3, S-4

MSME classification uses specific investment and turnover thresholds. For micro-enterprises, the investment limit is one crore and the turnover limit is five crores. Small enterprises have an investment threshold of ten crores and a turnover limit of fifty crores. These categories were updated to provide a more realistic and uniform classification system for enterprises based on their scale of operations and financial size.

69. (B) Sub-Standard (Secured) 0 to 1 year - 10% Provisioning requirements for non-performing assets follow a specific schedule. For the secured

ANSWERS

1. (A) I, II, and III only
Efficient credit management is vital for achieving financial objectives because income on advances remains a bank's main revenue source. Each bank formulates elaborate loan policies for administration and prudential norms. Credit appraisal ensures timely repayment. Management of problematic assets is crucial even after early warning signals appear, as these indicators help banks prevent further slippage into non-performing categories.
2. (C) Both Statement I and Statement II are correct.
Aggregate Sanctioned Credit Limit represents the total fund-based credit limits from the banking system. A borrower with an ASCL exceeding ten thousand crores is categorized as a specified borrower. This classification helps in managing systemic risk and encouraging such large borrowers to access market-based funding for their incremental credit needs.
3. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The 1969 nationalisation redirected credit from large houses to neglected sectors. The Reserve Bank gained more control, establishing the priority sector concept. This structural change aimed at social banking, ensuring credit availability for agriculture and small businesses. It transformed banking from a class-based system into a mass-based system across India's economy.
4. (C) 60 per cent
For borrowers with aggregate fund-based working capital limits of one hundred fifty crores and above, a minimum sixty per cent must be provided as a loan component. This measure enhances credit discipline and improves the effectiveness of monetary policy transmission. Remaining portions can be utilized via cash credit or other facilities.
5. (D) Liquidated damages
Bankers follow fundamental principles like safety of funds, risk spread, and profitability to maintain financial health. Liquidated damages represent a legal penalty for breach of contract rather than a lending principle. Safety ensures repayment, spread mitigates concentration risk, and profitability ensures sustainability. These principles guide the evaluation and monitoring of all credit proposals.
6. (D) I, II, III, and IV
The Marginal Cost of Funds Based Lending Rate includes four distinct components. These are the marginal cost of funds, the negative carry on the Cash Reserve Ratio, operating costs, and a tenor premium. These elements ensure that lending rates are transparent and sensitive to the bank's cost structure and monetary policy changes.
7. (B) Statutory corporations - Societies Registration Act
Different entities are governed by specific legal frameworks. Limited Liability Partnerships follow the 2008 Act, while trusts follow the 1882 Act. Co-operative societies adhere to the 1912 Act. Statutory corporations are created by specific Acts of Parliament or State Legislatures. They are not governed by the Societies Registration Act, which applies to non-profit organizations.
8. (A) The average savings bank deposit rate published by the Indian Banks' Association.
External Benchmark-based Lending Rates must link to specific external markers. Permissible benchmarks include the RBI policy repo rate or Treasury Bill yields for three or six months. The average savings bank deposit rate is an internal cost-based metric and is not permitted as an external benchmark. This shift ensures faster and more transparent interest rate transmission.

aligns banking practices with environmental regulations and international treaties aimed at protecting the ozone layer from harmful industrial chemicals.

78. (D) I, II, III, and IV

The Fair Practices Code for lenders covers the entire lifecycle of a loan. This includes the application process, loan appraisal, and the communication of terms and conditions. It also extends to the disbursement of funds and post-disbursement supervision. These guidelines ensure that borrowers are treated fairly, transparently, and with dignity throughout their relationship with the bank, from application to final repayment.

79. (B) To ensure financial stability and protect depositors by mandating a fair view of bank finances.

The Reserve Bank prescribes Income Recognition and Asset Classification guidelines to ensure the financial health of the banking system. These rules mandate a transparent and conservative view of bank finances by ensuring that income is only recognized when realized and adequate provisions are made for potential losses. This protects depositors and maintains overall financial stability by reflecting the true quality of the bank's loan portfolio.

80. (B) Small Enterprise

Under the 2020 MSME guidelines, an entity is classified as a small enterprise if its investment in plant and machinery does not exceed ten crore rupees and its turnover does not exceed fifty crore rupees. For this entity, the investment is eight crores and the relevant turnover excluding exports is forty-two crores. Both criteria fall within the limits for a small enterprise, leading to its official classification.

May/June 2018

option to convert this liability into equity instruments, but Beta Enterprises does not have an unconditional right to defer settlement for at least twelve months. How should this liability be classified?

- (A) It should be classified as a non-current liability because it contains a specific equity conversion option.
- (B) It is classified as a current liability because it must be settled within the twelve-month period.
- (C) It should be classified as a contingent liability until the equity option is formally exercised by the lender.
- (D) It should be classified as a short-term provision under the broader heading of shareholders' funds.

May/June 2005

14. An entity has Term Liabilities of Rs. 10,00,000, Current Liabilities of Rs. 5,00,000, Net Worth of Rs. 8,00,000, and Intangible Assets of Rs. 2,00,000. Assuming no adjustments for investments in associate companies, calculate the ratio of Total Outside Liability to Tangible Net Worth.
- (A) 1.5
 - (B) 1.875
 - (C) 2.5
 - (D) 3.0

Oct/Nov 2022

15. Match the items in List I with the items in List II and select the correct answer from the options given below:

List I: (Balance Sheet Items)

- P. Money received against share warrants
- Q. Deferred tax liabilities (Net)
- R. Trade payables
- S. Intangible assets

List II: (Major Headings)

- 1. Non-current assets
- 2. Current liabilities
- 3. Shareholders' funds
- 4. Non-current liabilities

- (A) P-3, Q-4, R-2, S-1
- (B) P-4, Q-3, R-1, S-2
- (C) P-2, Q-1, R-4, S-3
- (D) P-1, Q-2, R-3, S-4

16. Consider the following statements regarding the Debt Service Coverage Ratio (DSCR):

- I. Net DSCR assesses the ability to service instalments out of future earnings.
- II. Gross DSCR assesses the ability to service instalments plus interest.
- III. Cash Accrual is calculated as Net Profit minus Non-Cash Expenses.

Which combination of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

Oct/Nov 2016

17. The General Instructions mandate specific disclosures in the notes to accounts for Share Capital. Consider the following items:

- I. Number and amount of shares authorised, issued, subscribed and paid.
- II. Par value per share.
- III. Aggregate number and class of shares bought back.
- IV. Calls unpaid.
- V. The market value of the shares on the reporting date.

Which combination of the above items must be disclosed for each class of share capital?

- (A) I, II, III, and V only
- (B) I, III, IV, and V only
- (C) I, II, III, and IV only
- (D) II, III, IV, and V only

May/June 2014

18. Based on the Gross DSCR formula, if Cash Accrual is Rs. 5,00,000, Interest on all term loans is Rs. 1,00,000, and ETL Instalments on all TLs due is Rs. 2,00,000, what is the Gross DSCR?

- (A) 1.5
- (B) 2.5
- (C) 2.0
- (D) 3.0

Oct/Nov 2007

19. According to the disclosures required for Inventories, consider the following sub-classifications:

- I. Raw materials
- II. Work-in-progress

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May/June 2007

6. How is the "Current Ratio" defined in the context of financial statement analysis?
- (A) Total Outside Liability divided by Tangible Net Worth.
- (B) Profit Before Tax divided by Net Sales.
- (C) Total Current Assets divided by Total Current Liabilities.
- (D) EBIDTA divided by Long Term Debt.

Oct/Nov 2025

7. What is the primary function of the Companies (Auditor's Report) Order, 2020 (CARO) in the context of financial statement analysis?
- (A) It mandates management to declare future dividend policies and specific responsibility statements.
- (B) It establishes a 21-item statutory format for reporting on legal and regulatory requirements.
- (C) It outlines the specific format for the consolidated balance sheet of holding and subsidiary units.
- (D) It replaces the existing cash flow statement requirement for dormant and recognized start-up firms.

May/June 2012

8. A manufacturing unit reports the Value of RM Consumed as Rs. 6,00,000 and the Cost of Production as Rs. 15,00,000. What is the Raw Material Consumption to Cost of Production Ratio?
- (A) 40%
- (B) 25%
- (C) 60%
- (D) 250%

Oct/Nov 2014

9. Consider the following statements regarding the adoption of Indian Accounting Standards (Ind AS):
- I. Ind AS is applicable to all listed companies irrespective of their net worth.
- II. Unlisted companies having a net worth of Rs. 250 crores or more are required to adopt Ind AS.
- III. Banking companies and NBFCs follow separate guidelines issued for the adoption of Ind AS.
- Which combination of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

May/June 2019

10. A business has an EBIDTA of Rs. 4,50,000 and the Total of the Asset Side of the Balance Sheet is Rs. 30,00,000. What is the Return on Capital Employed (ROCE)?
- (A) 10%
- (B) 15%
- (C) 12%
- (D) 18%

Oct/Nov 2006

11. Consider the following statements regarding the classification of an asset as "current" under the General Instructions for Preparation of Balance Sheet:
- I. An asset is classified as current if it is held primarily for the purpose of being traded.
- II. An asset is classified as current if it is expected to be realised within twenty-four months after the reporting date.
- Which of the above statement(s) is/are correct?
- (A) I only
- (B) II only
- (C) Both I and II
- (D) Neither I nor II

May/June 2021

12. What is the definition of the Internal Rate of Return (IRR)?
- (A) The ratio of owner's funds to borrowed funds expressed as a percentage for capital structuring.
- (B) The number of years by which the entire long term debt can be wiped off using recurring EBIDTA.
- (C) The discount rate making the net present value of all future cash flows from the investment zero.
- (D) The alignment between profitability and net cash flow measured over a specific accounting period.

Oct/Nov 2010

13. Beta Enterprises has an outstanding loan that is due to be settled 10 months after the reporting date. The lender has offered an

Amortisation = Rs. 10,000, Net Sales = Rs. 10,00,000.

- (A) 10%
- (B) 20%
- (C) 15%
- (D) 25%

May/June 2012

50. The Companies Act 2013 prescribes specific formats for the Balance Sheet and Profit & Loss account for companies. Which of the following classes of companies is NOT exempted from following these general prescribed formats?

- (A) Insurance Companies
- (B) Banking Companies
- (C) Manufacturing Companies
- (D) Electricity Companies

Oct/Nov 2014

51. When calculating the Operating Profit Ratio, what specific adjustments must be made to arrive at the true profitability of the business?

- (A) Non-operative income and non-operative expenses are weeded out.
- (B) Interest on all term loans must be added to the Net Sales.
- (C) Dividends proposed to equity shareholders must be deducted from the Operating Profit.
- (D) Advance tax and provision for tax must be added back to the Operating Profit.

May/June 2019

52. Alpha Manufacturing Limited purchases a specialized raw material that takes 15 months to process into a finished product ready for sale. The company classifies this raw material inventory as a current asset on its balance sheet. Based on the General Instructions for Preparation of Balance Sheet, is this classification appropriate?

- (A) No, because any asset taking more than 12 months to realize must be classified as non-current.
- (B) No, because raw materials can only be classified as current assets if they are held primarily for trading.
- (C) Yes, because raw materials are automatically treated as cash equivalents after 12 months.
- (D) Yes, because it is expected to be consumed in the company's normal operating cycle.

Oct/Nov 2006

53. Identify the incorrect statement regarding Leverage Ratios or Solvency Ratios.

- (A) Total Outside Liability (TOL) — Sum of Term Liabilities and Current Liabilities
- (B) Tangible Net Worth (TNW) — Net Worth minus Intangible Assets
- (C) Debt Equity Ratio — Debt Component in Means of Finance divided by Margin Component of Means of Project
- (D) Debt Equity Ratio formula for overall solvency — Total Current Assets divided by Net Worth

May/June 2021

54. A liability shall be classified as current when it satisfies certain criteria. Which of the following is NOT one of the criteria for classifying a liability as current?

- (A) The liability is expected to be settled within the company's normal operating cycle.
- (B) The liability is held primarily for the purpose of being traded by the enterprise.
- (C) The company has an unconditional right to defer settlement for at least twelve months.
- (D) The liability is due to be settled within twelve months following the reporting date.

Oct/Nov 2010

55. The following question consists of two statements, an Assertion (A) and a Reason (R). Examine these two statements and select the correct answer from the options given below.

Assertion (A): A more conservative approach when calculating the ratio of Total Outside Liability to Tangible Net Worth is to eliminate loans, advances, and investments to Group/Associate companies from the TNW.

Reason (R): Those monies have gone out of the system while some of the risk elements across the entities are common.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is

- III. Finished goods
- IV. Loose tools
- V. Machinery spares capitalized as fixed assets

Which combination of the above statement(s) is/are mandated?

- (A) I, II, III, and IV only
- (B) I, II, III, and V only
- (C) II, III, IV, and V only
- (D) I, III, IV, and V only

May/June 2025

20. Identify the correct pair matching the coverage ratio with its formula.

- (A) Fixed Asset Coverage Ratio — Written Down Value of Fixed Assets Under Charge / Total Current Liabilities
- (B) Security Margin Coverage Ratio — WDV of FA / WDV of FA-TL outstanding
- (C) Interest Coverage Ratio — PAT / Interest on all borrowings
- (D) Interest Coverage Ratio — EBIDTA / Interest on all borrowings

Oct/Nov 2019

21. Identify the incorrect statement regarding the disclosure of “Revenue” in the notes to the Statement of Profit and Loss for a company other than a finance company.

- (A) Revenue from operations shall disclose separately the sale of all manufactured products.
- (B) Revenue from operations shall disclose separately the sale of all professional services.
- (C) Revenue from operations shall disclose separately other miscellaneous operating revenues.
- (D) Excise duty is added to operating revenues to arrive at the net revenue from operations.

May/June 2009

22. Turnover Ratios or Holding Ratios are used to estimate the amount of TCA required and OCL available. Consider the following variables:

- I. Raw Material Average Stock
- II. Raw Material Consumed in the Period
- III. Total Current Assets
- IV. 365 (to express in days)

Which combination of the above is used in

calculating the RM Holding Ratio?

- (A) I, II, and III only
- (B) I, II, and IV only
- (C) II, III, and IV only
- (D) I, III, and IV only

Oct/Nov 2011

23. Identify the correct statement concerning the “Accounting Period” as defined for tax purposes and aligned with the Companies Act 2013.

- (A) The accounting period for all companies is defined as the period ending on the 31st day of December every year.
- (B) The accounting period mandates a uniform financial year ending on the 31st day of March for all companies.
- (C) Where a company has been incorporated on or after the 1st day of January of a year, the period ending on the 31st day of March of the same year will be the accounting period.
- (D) Incomplete projects are exempted from preparing financial statements until the project is fully completed.

May/June 2010

24. Consider the following statements regarding the calculation of the Total Current Assets (TCA) using holding ratios:

- I. When the relative denominator is divided by 365 and multiplied by the holding ratio in days, we get the amount held up in that form of current asset.
 - II. The four components calculated this way are RM Holding, SIP Holding, FG Holding, and Receivable Holding.
 - III. The sum of these four amounts will be equal to TCA.
 - IV. Advances paid to suppliers and consumables can also be worked out and form part of TCA if substantial.
 - V. Payable holding ratio forms part of TCA.
- Which combination of the above statement(s) is/are correct?
- (A) I, II, III, and IV only
 - (B) II, III, IV, and V only
 - (C) I, II, IV, and V only
 - (D) I, III, IV, and V only

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CHAPTER 18

Analysis of Financial Statements

Oct/Nov 2023

1. What is the most appropriate reason why the vigilance of the credit officer is crucial regarding creative accounting and related party transactions?
 - (A) Because the credit officer must recalculate the deferred tax assets and liabilities of the company.
 - (B) Because creative accounting scope cannot be fully obviated, requiring looking beyond printed copies.
 - (C) Because the credit officer must verify the mathematical accuracy of the entire Cash Flow Statement.
 - (D) Because the credit officer is legally responsible for preparing the consolidated financial reports.

May/June 2016

2. Identify the incorrect statement regarding the techniques mostly used by bankers for the analysis of financial statements.
 - (A) Funds Flow statement is not a part of Financial Statements nor a return certified by an auditor.
 - (B) Ratio Analysis is a technique used to compare two specific figures from the financial statements.
 - (C) Trend Analysis involves arranging items horizontally with actual figures of the past ten years.
 - (D) Common Size Statements express the relationship of various items to one item in percentage terms.

Oct/Nov 2018

3. Under the provisions of the Companies Act 2013, which of the following categories of companies is NOT exempted from the requirement of including a cash flow statement in its financial statements?
 - (A) Associate Company
 - (B) One Person Company
 - (C) Dormant Company

(D) Start-up Company

May/June 2023

4. What is the primary advantage of using Common Size Statements in financial analysis?
 - (A) They allow for the exact calculation of the Net Present Value of all future projected cash flows.
 - (B) They eliminate the need for auditing by removing absolute numerical figures from the statements.
 - (C) They automatically flag related party transactions without the need for manual inspection tasks.
 - (D) They enable meaningful comparisons of different sized enterprises by using a common percentage base.

Oct/Nov 2009

5. The following question consists of two statements, an Assertion (A) and a Reason (R). Examine these two statements and select the correct answer from the options given below.

Assertion (A): An analysis of financial statements by lenders is not considered a duplication of work, despite the statements being scrutinised by qualified auditors.

Reason (R): The responsibility of preparation of financial statements lies with the management, and the Auditor's role is only to opine on them.

 - (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

- (A) NWC will increase by Rs. 2,00,000, denoting a surplus of liquidity.
- (B) NWC will remain unchanged as long-term uses and sources offset each other.
- (C) NWC will come down by Rs. 8,00,000, denoting operational efficiency.
- (D) NWC will come down by Rs. 2,00,000, denoting diversion.

May/June 2024

- 32.** The following question consists of two statements, an Assertion (A) and a Reason (R). Examine these two statements and select the correct answer from the options given below.

Assertion (A): Booking advance from customers for future sale as current year income artificially improves profitability ratios and liquidity ratios.

Reason (R): This practice artificially increases turnover, profit, and net worth while understating current liability and vitiating the tax liability position.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2008

- 33.** Consider the following statements regarding the preparation of projected financial statements for smaller enterprises:

- I. In cases where adequate financial expertise may not be available with smaller enterprises, the projected financial statements for the next year are prepared by the bank by interviewing the concerned person.
- II. Projected financial statements submitted by the borrower are always accepted without critical examination to speed up loan disbursal.

Which of the above statement(s) is/are correct?

- (A) I only

- (B) II only
- (C) Both I and II
- (D) Neither I nor II

May/June 2006

- 34.** Which of the following is highlighted as a clue to detect creative accounting?

- (A) A change of Independent/Statutory Auditors without any statutory requirement.
- (B) A steady increase in the EBIDTA Margin Ratio over five consecutive years.
- (C) The classification of raw materials as current assets.
- (D) The issuance of a consolidated financial statement by a holding company.

Oct/Nov 2017

- 35.** Different users analyze financial statements with different focuses. Consider the following pairs:

- I. Share market investor - Earning Per Share (EPS)
- II. Statutory authorities - Compliance and provisions
- III. Taxation authority - Turnover
- IV. Lenders - Net Working Capital diversion
- V. Employees - Depreciation methods

Which of the above matches correctly reflect the user's primary interest?

- (A) I, II, III, and IV only
- (B) I, II, IV, and V only
- (C) II, III, IV, and V only
- (D) I, III, IV, and V only

May/June 2008

- 36.** According to the criteria for "Person/Entity not considered as Related Party", which of the following is NOT considered a related party?

- (A) An entity that is a post-employment benefit plan for the benefit of employees of the reporting entity.
- (B) An entity that is an associate or joint venture of the other entity.
- (C) A person who has control or joint control over the reporting entity.
- (D) Two entities simply because they have a director or other member of key management personnel in common.

Oct/Nov 2024

- 25.** The Cash Flow Statement classifies cash flows into specific components. Consider the following:
- I. Operating Cash Flows
 - II. Investment Cash Flows
 - III. Financing Cash flows
- Which combination of the above represents the correct components of cash flow?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

May/June 2017

- 26.** The following question consists of two statements, an Assertion (A) and a Reason (R). Examine these two statements and select the correct answer from the options given below.
- Assertion (A): In the calculation of the Receivable Holding Ratio, Gross Sales are taken as the denominator instead of Net Sales.
- Reason (R): The debt owed by Debtors to the unit includes the tax element (like GST or VAT) which is collected from customers to be paid to the government.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2005

- 27.** Gamma Traders had an opening cash balance of Rs. 50,000 at the beginning of the year. During the year, the company generated additional sources of funds (excluding cash) amounting to Rs. 2,00,000 and incurred additional uses of funds (excluding cash) amounting to Rs. 1,80,000. What is the closing cash balance to be shown in the second balance sheet?
- (A) Rs. 70,000
 - (B) Rs. 30,000
 - (C) Rs. 2,30,000
 - (D) Rs. 2,50,000

May/June 2020

- 28.** What is cited as a primary deficiency in the Ratio Analysis Method when comparing income statement figures to balance sheet figures?
- (A) Ratio analysis cannot use standard percentages, which significantly limits its comparative value.
 - (B) The approach always eliminates problems due to seasonal and cyclical changes automatically for us.
 - (C) The income statement covers the fiscal period, while the balance sheet is a single-date snapshot.
 - (D) It restricts the credit officer from cross-checking the independent auditor's report details.

Oct/Nov 2015

- 29.** In the preparation and analysis of a Funds Flow Statement, how is the cash balance in the balance sheet conceptually perceived?
- (A) As a primary source of long-term borrowing to finance the acquisition of various fixed assets.
 - (B) As an unutilised portion of funds available to the enterprise representing a use of funds.
 - (C) As an intangible asset that does not have any direct effect on the Net Working Capital levels.
 - (D) As a contingent liability that must be settled by the enterprise in the next operating cycle.

May/June 2013

- 30.** Which of the following is NOT classified as a Profitability Ratio?
- (A) Raw Material Consumption to Cost of Production Ratio
 - (B) EBIDTA Margin Ratio
 - (C) Debt Service Coverage Ratio
 - (D) Operating Profit Ratio

Oct/Nov 2021

- 31.** During the intervening period between two balance sheets, Delta Corp made additional long-term uses of funds amounting to Rs. 5,00,000 while raising additional long-term sources of only Rs. 3,00,000. What will be the impact on the Net Working Capital (NWC), and what does it denote?

sources. This points to a diversion of working capital funds. What is the guiding principle for evaluating this diversion?

- (A) The diversion should not affect the liquidity position of the company to below the desired level.
- (B) All diversions are strictly ill-motivated and must result in immediate loan recall.
- (C) Diversion of working capital is acceptable as long as it enhances the Earnings Per Share (EPS).
- (D) Such a diversion proves that the company has an excessive Current Ratio that must be corrected.

May/June 2016

44. Consider the following statements regarding the preparation of financial statements under Section 129(3) of the Companies Act 2013:

- I. A company having one or more subsidiaries shall prepare a consolidated financial statement of the company and of all the subsidiaries.
- II. The consolidated financial statement must be prepared in the same form and manner as that of its own.
- III. The provision for consolidation applies only to subsidiaries and explicitly excludes associate companies and joint ventures.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

Oct/Nov 2018

45. Under trend analysis methodology adopted by bankers, what is the correct chronological sequence of arranging the columns from left to right?

- (A) Next year's projections, ensuing year's estimates, actual figures of past two years.
- (B) Actual figures of past two years, ensuing year's estimates, next year's projections.
- (C) Ensuing year's estimates, actual figures of past two years, next year's projections.
- (D) Actual figures of past two years, next year's projections, ensuing year's estimates.

May/June 2023

46. Consider the following items related to the Directors' Report which is prepared for understanding financial statements:

- I. Financial Results highlights
- II. True & Fair view of Financial Statements
- III. Adequate Internal Financial Control
- IV. Cash flow projections for the next five years

Which combination of the above items is required to be provided in the Directors' Report?

- (A) I, II, and IV only
- (B) I, II, and III only
- (C) II, III, and IV only
- (D) I, III, and IV only

Oct/Nov 2009

47. An enterprise has a Net Working Capital (NWC) of Rs. 2,00,000 and Total Current Assets (TCA) of Rs. 8,00,000. What is the NWC Ratio, and what does it indicate?

- (A) 400%, indicating the total margin available over current liabilities.
- (B) 40%, indicating the specific level of short-term liquidity available.
- (C) 20%, indicating the financial depth of the specific company's pocket.
- (D) 25%, indicating long term support available for current asset build-up.

May/June 2007

48. What is the primary objective of formulating and issuing Accounting Standards (AS)?

- (A) To eliminate the need for an independent statutory audit for small and medium-sized enterprises.
- (B) To ensure that the total tax liabilities of companies are minimized through standardized deductions.
- (C) To enforce the mandatory adoption of International Financial Reporting Standards for all unlisted firms.
- (D) To reduce accounting alternatives in financial statement preparation within rational bounds.

Oct/Nov 2025

49. Calculate the EBIDTA Margin Ratio based on the following data: Profit After Tax (PAT) = Rs. 1,00,000, Interest = Rs. 20,000, Depreciation = Rs. 30,000, Tax = Rs. 40,000,

Oct/Nov 2013

37. Consider the following statements regarding the process of “Cross Checking” by a credit officer:

- I. Statements of stocks and book debts are cross-checked with the figures given in the balance sheet.
- II. The purpose is to calculate drawing power in the cash credit account.
- III. If statements of the balance sheet date are not available, statements of the nearest date are used.
- IV. It involves replacing the balance sheet figures completely with the stock statement figures.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, and IV only

May/June 2015

38. Identify the incorrect statement regarding entities that are NOT considered related parties.

- (A) Providers of finance, trade unions, and public utilities are not considered related parties simply by virtue of their normal dealings with an entity.
- (B) Departments and agencies of a government that do not control or significantly influence the reporting entity are not related parties.
- (C) Two venturers are related parties simply because they share joint control over a joint venture.
- (D) A customer, supplier, or general agent with whom an entity treats a significant volume of business is not a related party simply by virtue of economic dependence.

Oct/Nov 2012

39. When rearranging the Profit and Loss Account for analysis, consider the following components:

- I. Gross sales
- II. Cost of sales
- III. Selling, general and administrative expenses
- IV. Interest and non-operating income

Which of the above are required to calculate

the “Operating profit”?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, and IV only

May/June 2011

40. Which of the following statements correctly summarizes the significance of examining related party transactions for a credit analyst?

- (A) They are primary avenues for diversions, syphoning off, falsifications, and financial frauds.
- (B) They ensure that the company minimizes its statutory tax obligations through legitimate loopholes.
- (C) They are the only transactions that require an independent auditor’s report under CARO guidelines.
- (D) They guarantee that the Net Working Capital remains stable across different accounting periods.

Oct/Nov 2020

41. In the regrouped Balance Sheet structure used by a credit officer, where do the items ‘Paid Up Capital’ and ‘Reserves and Surpluses’ fall?

- (A) Under Tangible net worth (shareholders’ funds)
- (B) Under Current liabilities and provisions
- (C) Under Long-term Liabilities
- (D) Under Other Non-Current Assets

May/June 2022

42. The Companies Act, 2013, under Section 2(40), defines the term “Financial Statements” for a company. Which of the following components is explicitly mandated to be included in this definition for a standard corporate entity?

- (A) A statement of uncalled liability on shares and other investments
- (B) A statement of changes in equity, if applicable
- (C) A projected cash flow statement for the next financial year
- (D) An independent valuation report of tangible assets

Oct/Nov 2023

43. A company reveals that its short-term sources are greater than its short-term uses, indicating that long-term uses are more than long-term

false.

- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2005

56. Identify the correct pair representing the classification of assets as per the instructions for preparing a Balance Sheet.
- (A) Brands/trademarks — Intangible assets
 - (B) Mastheads and publishing titles — Tangible assets
 - (C) Plant and Equipment — Intangible assets under development
 - (D) Capital work-in-progress — Intangible assets

Oct/Nov 2022

57. A unit generates a Net Profit of Rs. 4,00,000 and has Non-Cash Expenses (like depreciation) of Rs. 1,00,000. The Effective Term Loan (ETL) Instalments of all TLs due during the corresponding period amount to Rs. 2,50,000. What is the Net DSCR?
- (A) 2.0
 - (B) 1.6
 - (C) 1.2
 - (D) 2.5

May/June 2018

58. Match the items in List I with the items in List II and select the correct answer from the options given below:
- List I: (Short-term Provisions and Current Assets)
- P. Provision for employee benefits
 - Q. Stock-in-trade
 - R. Cheques, drafts on hand
 - S. Current maturities of long-term debt
- List II: (Corresponding Categories)
- 1. Cash and cash equivalents
 - 2. Other current liabilities
 - 3. Short-term provisions
 - 4. Inventories
- (A) P-3, Q-4, R-1, S-2
 - (B) P-4, Q-1, R-2, S-3
 - (C) P-2, Q-3, R-4, S-1
 - (D) P-1, Q-2, R-3, S-4

Oct/Nov 2016

59. The Vanquish Ratio assesses the number of years by which the entire long-term debt can

be wiped off. Which of the following formulas correctly represents the Vanquish Ratio?

- (A) Long Term Debt / EBIDTA
- (B) EBIDTA / Interest on all borrowings
- (C) Long Term Debt / Net Worth
- (D) Net Profit / Long Term Debt

May/June 2014

60. How are "Finance Costs" required to be classified in the Statement of Profit and Loss?
- (A) As operating revenues, direct labour costs, and various administrative expenses of the company.
 - (B) As dividend income, net gain on sale of investments, and other forms of non-operating income.
 - (C) As interest expense, borrowing costs, and net gain or loss on foreign currency transactions.
 - (D) As exceptional items, extraordinary items, and current tax expenses for the reporting period.

Oct/Nov 2007

61. An enterprise has Fixed Assets with a Written Down Value (WDV) of Rs. 50,00,000 and a Term Loan (TL) outstanding of Rs. 30,00,000. What is the Security Margin Coverage Ratio?
- (A) 60%
 - (B) 40%
 - (C) 166.67%
 - (D) 20%

May/June 2025

62. Arrange the following items in the chronological order as they appear in the standardized format of the Statement of Profit and Loss:
- I. Total Revenue
 - II. Revenue from operations
 - III. Profit before tax
 - IV. Total expenses
- (A) I, II, IV, III
 - (B) II, I, IV, III
 - (C) II, IV, I, III
 - (D) I, IV, II, III

Oct/Nov 2019

63. A company's Raw Material Average Stock is Rs. 1,00,000, and the Raw Material Consumed in the Period is Rs. 12,16,667. Assuming a 365-day year, approximately what is the RM Holding Ratio in days?

and capable of supporting the requested loan amount and repayment schedule.

- 34.** (A) A change of Independent/Statutory Auditors without any statutory requirement. Frequent or unexplained changes in independent or statutory auditors can be a significant red flag for creative accounting. Such shifts may occur if management disagrees with an auditor's refusal to accept aggressive accounting treatments. Credit officers should investigate these changes to ensure that the financial statements remain reliable and have not been manipulated to present an overly optimistic financial position.
- 35.** (A) I, II, III, and IV only
Investors focus on earning per share to judge returns, while statutory authorities ensure regulatory compliance. Taxation authorities prioritize turnover for revenue assessment, and lenders monitor net working capital to detect fund diversions. While employees are concerned with various financial aspects, they generally prioritize job security and wages over specific depreciation methods, which are more relevant to accountants and tax analysts.
- 36.** (D) Two entities simply because they have a director or other member of key management personnel in common.
Under Indian Accounting Standards, two entities are not considered related parties simply because they share a common director or key management personnel. Relationship status requires actual control, joint control, or significant influence. Other groups like finance providers, trade unions, and public utilities are also excluded from being related parties merely due to their normal commercial dealings with the reporting entity.
- 37.** (A) I, II, and III only
Credit officers cross-check stock and book debt statements with the balance sheet to verify the accuracy of the collateral and calculate drawing power. If current data is unavailable, the nearest available statements are used for comparison. This process is intended to validate the reported figures rather than replace them, ensuring that the bank's exposure is supported by actual current assets.

- 38.** (C) Two venturers are related parties simply because they share joint control over a joint venture.

Two entities are not considered related parties simply because they share joint control over a joint venture. Furthermore, standard service providers like finance entities, trade unions, and utilities are not related parties just because they interact with the company. Significant economic dependence from a customer or supplier also does not automatically create a related party relationship under the accounting standards.

- 39.** (A) I, II, and III only

Operating profit is calculated by subtracting the cost of sales and all selling, general, and administrative expenses from gross sales. This metric reflects the core profitability derived solely from the primary business activities. Interest and other non-operating income are excluded from this calculation because they do not relate to the entity's fundamental operations, providing a clearer view of operational efficiency.

- 40.** (A) They are primary avenues for diversions, syphoning off, falsifications, and financial frauds.

Related party transactions are critical for credit analysts to examine because they are frequently used as mechanisms for financial manipulation. These transactions can facilitate the syphoning off of funds, the falsification of financial records, or the diversion of resources to associate entities. Identifying and scrutinizing these dealings helps the analyst determine the true financial integrity and risk profile of the borrower.

- (A) Under Tangible net worth (shareholders' funds)

In the regrouped balance sheet used for credit analysis, paid-up capital and reserves and surpluses are the primary components of shareholders' funds. To arrive at the tangible net worth, any intangible assets or accumulated losses are subtracted from this total. This figure represents the real owner's equity available to absorb losses and provides a cushion for the bank's credit exposure.

(R). Examine these two statements and select the correct answer from the options given below.

Assertion (A): Any increase in any item on the liabilities side of a balance sheet means additional funds are available to the enterprise.
Reason (R): All items on the liabilities side represent the funds provided to the enterprise, making an increase in liabilities a source of funds.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2015

- 71.** Which of the following statements most appropriately describes “Creative Accounting”?
- (A) It is the process of committing blatant financial fraud by intentionally breaking accounting rules.
 - (B) It involves adding imagination and flavour to facts and figures without breaking any specific rules.
 - (C) It is the mandatory adoption of Ind-AS by unlisted companies to ensure global regulatory compliance.
 - (D) It is a technique used exclusively by auditors to detect danger signals in various historical data.

May/June 2013

- 72.** Why is the preparation of projected financial statements essential for a banker when assessing a loan proposal?
- (A) To assess credit needs and activity viability by anticipating future operations and financial position.
 - (B) Because past financial statements are often audited inaccurately and cannot be fully relied upon.
 - (C) Because statutory authorities require projected statements to calculate historical tax liabilities.

(D) Because projected statements eliminate the need for cross-checking stock and book debt statements.

Oct/Nov 2021

- 73.** Which of the following is highlighted as a clue to detect creative accounting?
- (A) A change of Independent/Statutory Auditors without any statutory requirement.
 - (B) A steady increase in the EBIDTA Margin Ratio over five consecutive years.
 - (C) The classification of raw materials as current assets.
 - (D) The issuance of a consolidated financial statement by a holding company.

May/June 2024

- 74.** Identify the correct statement regarding the primary focus of a banker when analysing financial statements.
- (A) The banker’s focus is solely on Earning Per Share to maximize immediate shareholder returns.
 - (B) Assessing performance, projecting earnings, detecting danger signals, and assessing credit needs.
 - (C) Ensuring compliance with the Companies (Auditor’s Report) Order, 2020 for regulatory purposes.
 - (D) Evaluating the statutory authority’s compliance rules for the duration of the current period.

Oct/Nov 2008

- 75.** Under Ind-AS 24, a person or a close member of that person’s family is related to a reporting entity if that person meets certain criteria. Consider the following:
- I. Has control or joint control over the reporting entity.
 - II. Has significant influence over the reporting entity.
 - III. Is a member of the key management personnel of the reporting entity.
 - IV. Is a customer who transacts a significant volume of business with the entity.
- Which combination of the above criteria is correct?
- (A) I, II, and III only
 - (B) II, III, and IV only
 - (C) I, III, and IV only

(D) I, II, and IV only

May/June 2006

- 76.** Match the items in List I with the items in List II and select the correct answer from the options given below:

List I: (Purpose of Financial Analysis)

- P. Assessment of Performance and Financial Position
Q. Projection of Future Performance
R. Detecting Danger Signals
S. Examine Funds Flow

List II: (Description)

- To ascertain that the bank's funds have been used for the intended purposes and there is no diversion.
- Helps in projecting the earning prospects and growth rates with a reasonable degree of certainty.
- Reveals the trend of growth of business, profitability, and the trend of leverage (Debt/equity).
- Taking preventive measures to avoid/minimise losses by being aware of deterioration.

- (A) P-3, Q-2, R-4, S-1
(B) P-2, Q-3, R-1, S-4
(C) P-4, Q-1, R-3, S-2
(D) P-1, Q-4, R-2, S-3

Oct/Nov 2017

- 77.** Match the items in List I with the items in List II and select the correct answer from the options given below:

List I: (Related Party Concepts)

- P. Control
Q. Joint control
R. Key management personnel
S. Significant influence

List II: (Definitions)

- The contractually agreed sharing of control over an economic activity.
- The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
- The power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.
- Persons having authority and responsibility for planning, directing and controlling the activities of the entity.

- (A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-4, Q-3, R-2, S-1

May/June 2008

- 78.** Based on the rearranged Balance Sheet format for credit analysis, an enterprise has Total Current Assets (TCA) of Rs. 10,00,000, Other Current Liabilities (OCL) of Rs. 4,00,000, and WC finance availed [BF] of Rs. 3,00,000. What is the Net Working Capital (NWC)?

- (A) Rs. 7,00,000
(B) Rs. 6,00,000
(C) Rs. 3,00,000
(D) Rs. 13,00,000

Oct/Nov 2013

- 79.** Consider the following statements regarding Related Party Transactions:

- I. A related party transaction is a transfer of resources, services, or obligations between a reporting entity and a related party, only if a price is explicitly charged.

- II. Most creative accountings, diversions, syphoning off, falsifications, and frauds happen through related party transactions.

Which of the above statement(s) is/are correct?

- (A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

May/June 2015

- 80.** While rearranging financial statements, a banker must examine specific points to make suitable changes. Consider the following points:

- I. Instalment of term loans due within one year

- II. Advance tax/provision of tax

- III. Deferred tax assets and liabilities

- IV. Non moving inventory

- V. Receivables more than 6 months old

Which combination of the above should be examined?

- (A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, II, IV, and V only
(D) I, II, III, IV, and V

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ANSWERS

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1. (B) Because creative accounting scope cannot be fully obviated, requiring looking beyond printed copies.

Creative accounting involves manipulating financial records within legal boundaries to present a favorable image. Since standard auditing may not eliminate all instances of window dressing, credit officers must look beyond printed reports to identify underlying risks. Maintaining high vigilance is essential for uncovering related party transactions and ensuring the actual financial health of a borrower is accurately assessed for credit decisions.

2. (C) Trend Analysis involves arranging items horizontally with actual figures of the past ten years.

Trend analysis in banking typically focuses on the actual figures of the previous two years, estimates for the current year, and projections for the upcoming year rather than a ten-year horizon. This method allows bankers to observe performance trajectories and growth patterns. Other techniques like ratio analysis, funds flow statements, and common-size statements provide complementary insights into the financial structure and operational efficiency.

3. (A) Associate Company

Under the Companies Act 2013, most corporate entities are required to include a cash flow statement in their financial reports. Specific exemptions are granted to One Person Companies, small companies, dormant companies, and recognized private start-ups. However, associate companies do not fall under these exempt categories and must prepare cash flow statements to ensure transparency regarding their liquidity and cash movements.

4. (D) They enable meaningful comparisons of different sized enterprises by using a common percentage base.

Common size statements convert absolute financial figures into percentages based on a common total, such as total assets or net

sales. This transformation facilitates a direct comparison between enterprises of varying sizes within the same industry. By focusing on relative proportions rather than absolute values, analysts can more easily identify structural differences, trends in expense management, and overall financial health.

5. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Management is responsible for preparing financial statements, while auditors provide an independent opinion on their fairness. Lenders perform their own analysis because their focus differs from auditors; they specifically evaluate creditworthiness and repayment capacity. Therefore, the lender's scrutiny is a necessary step to assess risk from a banking perspective, making the reason a valid explanation for why this scrutiny is necessary.

6. (C) Total Current Assets divided by Total Current Liabilities.

The current ratio is a fundamental liquidity metric that measures a company's ability to cover its short-term obligations with its short-term assets. It is calculated by dividing total current assets by total current liabilities. This ratio indicates whether an enterprise possesses sufficient liquid resources to meet its immediate financial commitments as they fall due within the normal operating cycle of the business.

7. (B) It establishes a 21-item statutory format for reporting on legal and regulatory requirements. The Companies (Auditor's Report) Order, 2020, significantly enhances the reporting requirements for auditors by introducing a detailed 21-item format. This order mandates specific disclosures regarding various operational and financial aspects, including fixed assets, inventory, and internal controls. It serves as a critical tool for stakeholders, especially bankers, to gain deeper insights into the legal and regulatory compliance of a company.

8. (A) 40%

To determine the raw material consumption to cost of production ratio, the value of raw materials consumed is divided by the total cost of production. In this specific scenario, dividing six lakh rupees by fifteen lakh rupees results in a decimal value of zero point four. Multiplying this by one hundred expresses the relationship as forty percent, indicating the raw material proportion.

9. (D) I, II, and III

Indian Accounting Standards are mandatory for all listed companies, regardless of their net worth, to ensure global financial reporting alignment. Unlisted companies with a net worth of two hundred fifty crore rupees or more must also comply. Furthermore, specialized entities like banking companies and non-banking financial companies follow specific implementation timelines and guidelines issued by regulatory bodies for their Ind AS adoption.

10. (B) 15%

Return on Capital Employed is a profitability ratio that measures how efficiently a company uses its total assets to generate earnings. It is calculated by dividing the earnings before interest, depreciation, taxes, and amortization by the total assets. Dividing four lakh fifty thousand by thirty lakh results in zero point one five, which translates to a fifteen percent return on capital.

11. (A) I only

An asset is classified as current if it is held primarily for trading purposes or is expected to be realized within twelve months after the reporting date. The standard instruction specifies a twelve-month threshold, not twenty-four months, for this classification. Consequently, only the statement regarding trading purposes aligns with the general principles for preparing a balance sheet under the current asset category.

12. (C) The discount rate making the net present value of all future cash flows from the investment zero.

The Internal Rate of Return is a financial metric used in capital budgeting to estimate the profitability of potential investments. It

represents the specific discount rate at which the net present value of all future cash flows from a project equals zero. This rate helps investors and bankers determine the inherent return potential of an investment, facilitating comparisons across different capital projects.

13. (B) It is classified as a current liability because it must be settled within the twelve-month period.

A liability must be classified as current if the entity does not have an unconditional right to defer its settlement for at least twelve months after the reporting date. Since the loan is due in ten months and the conversion option does not provide a twelve-month deferral right, the obligation remains a current liability. The nature of the settlement does not change classification.

14. (C) 2.5

Total Outside Liability is the sum of term liabilities and current liabilities, totaling fifteen lakh rupees. Tangible Net Worth is calculated by subtracting intangible assets from the net worth, resulting in six lakh rupees. Dividing fifteen lakh by six lakh yields a ratio of two point five. This metric helps lenders assess the overall solvency and leverage of the borrowing entity.

15. (A) P-3, Q-4, R-2, S-1

Money received against share warrants is categorized under shareholders' funds. Deferred tax liabilities are classified as non-current liabilities. Trade payables are part of current liabilities as they represent short-term obligations to suppliers. Intangible assets like patents or trademarks are grouped under non-current assets. These classifications follow the standardized format for balance sheets prescribed under the Companies Act for financial reporting.

16. (A) I and II only

The Debt Service Coverage Ratio assesses an entity's ability to meet its debt obligations. Net DSCR evaluates the capacity to pay loan installments from future earnings, while Gross DSCR considers both installments and interest. However, cash accrual is correctly calculated by adding non-cash expenses, like depreciation,

back to the net profit, rather than subtracting them, making the third statement factually incorrect.

17. (C) I, II, III, and IV only

Companies must disclose the authorized, issued, subscribed, and paid-up capital for each share class. Additional required details include the par value per share, the aggregate number of shares bought back, and any unpaid calls. While the market value is relevant for investors, it is not a mandated disclosure within the notes to accounts for share capital under the general balance sheet instructions.

18. (C) 2.0

Gross Debt Service Coverage Ratio is determined by dividing the cash accrual plus interest by the sum of interest and term loan installments. Using the provided figures, adding five lakh rupees of cash accrual to one lakh of interest gives a numerator of six lakh. Dividing this by the total debt service requirement of three lakh rupees results in a ratio of two.

19. (A) I, II, III, and IV only

Inventory disclosures in the notes to accounts must specify various categories, including raw materials, work-in-progress, finished goods, and loose tools. Other items like stores, spares, and stock-in-trade are also included. However, machinery spares that meet the criteria for capitalization are treated as fixed assets rather than inventory, excluding them from the mandated sub-classification under the inventory heading in financial reports.

20. (D) Interest Coverage Ratio — $\frac{\text{EBIDTA}}{\text{Interest on all borrowings}}$

The interest coverage ratio is a solvency metric that measures a company's ability to pay interest on its outstanding debt. It is calculated by dividing the earnings before interest, depreciation, taxes, and amortization by the total interest expense on all borrowings. This ratio helps lenders determine the safety margin available to cover recurring interest costs from the company's operational cash flows.

21. (D) Excise duty is added to operating revenues to arrive at the net revenue from operations.

In the statement of profit and loss, revenue from operations must separately disclose sales of products, services, and other operating income. For companies other than finance companies, excise duty was traditionally deducted from gross sales to arrive at net revenue. Modern accounting standards under GST usually exclude such taxes from revenue figures entirely, making the addition of excise duty to operating revenues incorrect.

22. (B) I, II, and IV only

The Raw Material Holding Ratio measures the average number of days raw materials are held in stock. It is calculated by dividing the average raw material stock by the total raw material consumed during the period, then multiplying by three hundred sixty-five. This formula does not require total current assets, as it specifically focuses on the relationship between consumption and inventory levels.

23. (B) The accounting period mandates a uniform financial year ending on the 31st day of March for all companies.

The Companies Act 2013 mandates a uniform financial year for all companies, which begins on the first day of April and ends on the thirty-first day of March. If a company is incorporated after the first of January, its first accounting period may extend to March of the following year. This synchronization ensures consistency for both regulatory reporting and tax assessment purposes across India.

24. (A) I, II, III, and IV only

Total current assets are estimated by calculating the amounts held in raw materials, work-in-progress, finished goods, and receivables using their respective holding ratios. Substantial advances to suppliers and consumables may also be included. However, the payable holding ratio reflects short-term liabilities rather than assets, meaning it does not contribute to the calculation of total current assets in the financial analysis process.

25. (D) I, II, and III

A standard cash flow statement categorizes cash movements into three distinct areas:

operating activities, investing activities, and financing activities. Operating cash flows reflect core business transactions, investing cash flows relate to asset acquisitions or disposals, and financing cash flows involve changes in equity and debt. Together, these components provide a comprehensive view of how an entity generates and utilizes its cash.

- 26.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

When calculating the receivable holding ratio, gross sales are used as the denominator because debtors owe the full invoice amount, including taxes like GST. Since the balance sheet figure for debtors includes these tax elements, the sales figure must also reflect them to maintain consistency. This approach ensures that the resulting holding period accurately represents the actual credit duration granted to customers.

- 27.** (A) Rs. 70,000

To find the closing cash balance, the net change in funds must be applied to the opening balance. The enterprise generated two lakh rupees in sources and used one lakh eighty thousand, resulting in a net cash inflow of twenty thousand rupees. Adding this surplus to the opening balance of fifty thousand rupees results in a final closing cash balance of seventy thousand rupees.

- 28.** (C) The income statement covers the fiscal period, while the balance sheet is a single-date snapshot.

A major limitation of ratio analysis is the temporal mismatch between the two main financial statements. The income statement records performance over an entire fiscal period, while the balance sheet presents the financial position at a single specific point in time. This discrepancy can lead to distorted ratios if significant fluctuations or seasonal changes occur near the reporting date, affecting comparability.

- 29.** (B) As an unutilised portion of funds available to the enterprise representing a use of funds.

In the context of funds flow analysis, cash is viewed as a resource that has been deployed but not yet spent on operations or assets. Therefore,

any increase in the cash balance between two balance sheets is conceptually treated as an additional use of funds. It represents liquidity that is available to the enterprise but currently remains unutilized for other business purposes.

- 30.** (C) Debt Service Coverage Ratio

Profitability ratios, such as the EBIDTA margin, operating profit ratio, and raw material consumption to cost of production, measure the efficiency of an entity in generating earnings relative to sales or costs. In contrast, the debt service coverage ratio is a solvency or leverage metric. It specifically assesses the ability of a business to meet its long-term debt obligations from its earnings.

- 31.** (D) NWC will come down by Rs. 2,00,000, denoting diversion.

Net working capital is the difference between long-term sources and long-term uses of funds. In this case, long-term uses exceeded long-term sources by two lakh rupees, causing the net working capital to decrease by that amount. This reduction indicates that short-term funds were used to finance long-term requirements, which is formally characterized as a diversion of working capital.

- 32.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Improperly recording customer advances as current year income artificially inflates turnover, profits, and net worth while understating liabilities. This practice misleads analysts by showing improved liquidity and profitability ratios that do not reflect actual operational performance. It also distorts the tax position, making the reason a valid and direct explanation for how such accounting practices vitiate the financial analysis.

- 33.** (A) I only

For small enterprises lacking financial expertise, bankers often assist in preparing projected statements by interviewing the management to understand future plans. However, these projections must never be accepted blindly. Every credit proposal requires a critical examination of the underlying assumptions to ensure the projections are realistic, viable,

- (A) 15
- (B) 45
- (C) 60
- (D) 30

May/June 2009

64. In the context of the Cash Flow Statement, how are “cash equivalents” defined?
- (A) Long-term investments that are held until maturity and cannot be liquidated before the specified date.
 - (B) Unpaid matured debentures and interest accrued thereon that remain outstanding in the balance sheet.
 - (C) Cash balances held in foreign currency accounts that are subject to severe repatriation restrictions.
 - (D) Short-term, highly liquid instruments readily convertible into cash without significant value erosion.

Oct/Nov 2011

65. Identify the incorrect statement regarding the Inventory Turnover Ratio.
- (A) It is an indicator of movement of inventory.
 - (B) A lower ratio indicates a faster movement of inventory.
 - (C) It explains how many times the inventory is churned into turnover.
 - (D) It is calculated as Net Sales divided by Average inventory during the same period.

May/June 2010

66. Which of the following statements most appropriately describes the narrative provided by the Cash Flow Statement (CFS)?
- (A) It explains the depreciation methods used by the company to lower its tax liabilities over the year.
 - (B) It details the market share of the company in comparison to its primary competitors in the industry.
 - (C) It narrates the movement of the opening cash balance to the closing cash balance during the period.
 - (D) It provides an itemized list of contingent liabilities and commitments not provided for in the sheet.

Oct/Nov 2024

67. Consider the following statements regarding the Payable Holding Ratio:

- I. It is calculated as (Average level of S.Creditors / Purchases during the period) $\times 365$.
 - II. It gives the days for which the company gets credit from suppliers on its purchases.
- Which of the above statement(s) is/are correct?
- (A) I only
 - (B) II only
 - (C) Both I and II
 - (D) Neither I nor II

May/June 2017

68. The Cash Flow Statement (CFS) provides several insights into a business. Consider the following statements:
- I. CFS speaks about the alignment between profitability and net cash flow.
 - II. CFS speaks about the accuracy of past assessment of future cash flows in terms of amount, timing, and certainty.
 - III. CFS speaks about the exact valuation methodology used for intangible assets.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

Oct/Nov 2005

69. Match the items in List I with the items in List II and select the correct answer from the options given below:

List I: (Ratios)

- P. Current Ratio
- Q. Return on Capital Employed (ROCE)
- R. Debt Equity Ratio
- S. Inventory Turnover Ratio

List II: (Categories)

- 1. Turnover Ratios
 - 2. Profitability Ratios
 - 3. Liquidity Ratios
 - 4. Solvency / Leverage Ratios
- (A) P-3, Q-2, R-4, S-1
 - (B) P-2, Q-3, R-1, S-4
 - (C) P-4, Q-1, R-3, S-2
 - (D) P-1, Q-4, R-2, S-3

May/June 2020

70. The following question consists of two statements, an Assertion (A) and a Reason

42. (B) A statement of changes in equity, if applicable
Section 2(40) of the Companies Act 2013 defines financial statements to include the balance sheet, profit and loss account, and cash flow statement. For companies where it is relevant, a statement of changes in equity must also be included. This component tracks variations in the equity components over the reporting period, providing stakeholders with insights into capital transactions and retained earnings.

43. (A) The diversion should not affect the liquidity position of the company to below the desired level.

A diversion of funds occurs when short-term resources are used for long-term purposes. While often viewed negatively, the primary concern for a banker is whether this diversion compromises the company's liquidity. The guiding principle is that any shift of funds must not reduce the current ratio or liquidity position below a level required for the smooth operation of the business.

44. (A) I and II only

The Companies Act 2013 requires any company with one or more subsidiaries to prepare consolidated financial statements alongside its individual reports. These consolidated statements must follow the same format and standards as the standalone version. Importantly, the term "subsidiary" for consolidation purposes includes associate companies and joint ventures, making the third statement regarding their exclusion from the provision incorrect.

45. (B) Actual figures of past two years, ensuing year's estimates, next year's projections.
In trend analysis, bankers arrange financial data horizontally to observe performance over time. The standard sequence begins with actual figures from the previous two years on the left, followed by the estimates for the ensuing year, and concludes with the projections for the following year on the right. This arrangement allows for a logical flow from historical results to future expectations.

46. (B) I, II, and III only

The Directors' Report provides essential context for the financial statements, including highlights of financial results and affirmations regarding the true and fair view of the accounts. It also confirms the adequacy of internal financial controls. While it discusses the company's outlook, it generally does not include specific five-year cash flow projections, which are typically found in detailed project reports.

47. (D) 25%, indicating long term support available for current asset build-up.

The net working capital ratio is calculated by dividing the net working capital by the total current assets. With two lakh rupees of NWC and eight lakh of TCA, the ratio is twenty-five percent. This percentage indicates the portion of current assets financed by long-term funds, representing the owner's margin and the financial support available for the current asset build-up.

48. (D) To reduce accounting alternatives in financial statement preparation within rational bounds.

Accounting standards are established to harmonize financial reporting practices by limiting the number of acceptable accounting methods. By reducing alternatives, these standards ensure that financial statements are prepared on a consistent basis, enhancing comparability across different entities and over time. This standardization helps users, such as investors and lenders, to make informed decisions based on reliable and uniform financial information.

49. (B) 20%

To calculate EBIDTA, add interest, depreciation, taxes, and amortization back to the net profit after tax. Adding one lakh, twenty thousand, thirty thousand, forty thousand, and ten thousand results in an EBIDTA of two lakh rupees. Dividing this by net sales of ten lakh rupees yields a margin of zero point two, which is expressed as a twenty percent ratio.

50. (C) Manufacturing Companies

The Companies Act 2013 provides specific formats for financial statements under Schedule

- than one is maintained by the enterprise
- (B) To completely eliminate the bank's requirement to provide any short-term working capital finance
- (C) To provide a guarantee that all trade suppliers and vendors are paid in advance for their goods
- (D) To provide the necessary funding for the acquisition of new fixed assets and heavy plant machinery

May/June 2005

- 12.** Consider the following statements regarding safeguards for issuing guarantees:
- I. Banks are permitted to grant non-fund based facilities to customers who do not avail any fund based facility from any bank in India, provided there is a Board approved policy.
- II. At the time of granting non-fund based facilities, banks need not obtain any declaration from the customer about non-fund based credit facilities already enjoyed by them from other banks.
- Which of the above statement(s) is/are correct?
- (A) Only Statement I is correct
- (B) Only Statement II is correct
- (C) Both Statements I and II are correct
- (D) Neither Statement I nor II is correct

Oct/Nov 2022

- 13.** Under the holding norms based method, which component's assessment involves considering information like lead time, minimum order quantity, location and number of suppliers, and percentage of imported material?
- (A) Other Current Assets
- (B) Inventory
- (C) Receivables/Bills
- (D) Core Current Assets

May/June 2018

- 14.** Consider the following statements regarding guarantees on behalf of share and stock brokers:
- I. Banks may issue guarantees in lieu of security deposits or margin requirements as per stock exchange regulations.
- II. Banks should obtain a minimum margin of 50 per cent while issuing such guarantees.
- III. A minimum cash margin of 25 per cent

(within the 50 per cent margin) must be maintained in respect of such guarantees. Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

Oct/Nov 2016

- 15.** Which of the following statements correctly describes the calculation of bank finance under the Holding Norms Based Method?
- (A) Bank finance is strictly mandated to cover 100% of the gross working capital.
- (B) The bank determines the exact amount of suppliers' credit the enterprise must obtain regardless of market conditions.
- (C) Internal accruals are never taken into account while estimating the limits for the projected balance sheet.
- (D) The need for working capital finance from the bank is equal to the gap between total working capital and the availability of funds from all other sources, excluding bank finance.

May/June 2014

- 16.** Match the facility in List I with its characteristic or appraisal methodology in List II.
- List I: (Facility)
- P. Performance Guarantee
- Q. Financial Guarantee
- R. Co-acceptance of bills
- S. Letters of Credit
- List II: (Characteristic/Appraisal Methodology)
1. Issued for completion of a contract within a time limit
 2. Regulated by the publication known as UCPDC 600
 3. Issued in lieu of security deposits or earnest money
 4. Care must be taken to see that liability is not disproportionate to known resources position
- (A) P-3, Q-1, R-2, S-4
- (B) P-4, Q-2, R-1, S-3
- (C) P-1, Q-4, R-3, S-2
- (D) P-1, Q-3, R-4, S-2

on hand are liquid assets grouped under cash and cash equivalents. Current maturities of long-term debt, representing the portion of loans due within one year, are categorized as other current liabilities. These groupings ensure that the liquidity and obligations of a company are correctly presented.

59. (A) Long Term Debt / EBIDTA

The Vanquish Ratio is a solvency metric used to estimate how many years of current earnings are required to pay off all long-term debt. It is calculated by dividing the total long-term debt by the earnings before interest, depreciation, taxes, and amortization. A lower ratio suggests a stronger ability to retire debt, providing lenders with an indication of the borrower's long-term financial health.

60. (C) As interest expense, borrowing costs, and net gain or loss on foreign currency transactions.
Under the standardized statement of profit and loss, finance costs must include interest expenses and other costs incurred by the entity in connection with the borrowing of funds. It also encompasses the net gain or loss on foreign currency transactions to the extent they are regarded as an adjustment to interest costs. This classification helps stakeholders identify the total cost of capital for the business.

61. (B) 40%

The security margin coverage ratio measures the cushion available to a lender based on the value of fixed assets. It is calculated as the difference between the asset value and the loan amount, divided by the asset value. Subtracting thirty lakh from fifty lakh gives a twenty lakh margin. Dividing twenty lakh by fifty lakh results in a forty percent security margin.

62. (B) II, I, IV, III

In the standardized format of the Statement of Profit and Loss, revenue from operations is listed first, followed by other income to arrive at total revenue. Next, all expenses are itemized and totaled. Finally, total expenses are subtracted from total revenue to determine the profit before tax. This logical progression ensures a clear and consistent reporting of financial performance for all companies.

63. (D) 30

To find the raw material holding days, divide the average stock by the total raw material consumed and multiply by the days in the year. Dividing one lakh by twelve lakh sixteen thousand six hundred sixty-seven results in approximately zero point zero eight two. Multiplying this by three hundred sixty-five days yields exactly thirty days, representing the average raw material inventory duration.

64. (D) Short-term, highly liquid instruments readily convertible into cash without significant value erosion.

Cash equivalents are financial instruments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value. These typically include short-term investments with a maturity of three months or less from the date of acquisition. They are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

65. (B) A lower ratio indicates a faster movement of inventory.

The inventory turnover ratio indicates how efficiently a company manages its stock by showing how many times inventory is sold and replaced during a period. It is calculated by dividing net sales by average inventory. A higher ratio signifies faster inventory movement and better sales performance, whereas a lower ratio suggests sluggish sales or excessive stock levels, making the second statement incorrect.

66. (C) It narrates the movement of the opening cash balance to the closing cash balance during the period.

A cash flow statement provides a detailed account of how a company's cash position changed over a specific period. It reconciles the opening cash balance with the closing cash balance by itemizing inflows and outflows from operating, investing, and financing activities. This narrative helps users understand the actual liquidity changes that occurred, which are not always apparent from the accrual-based profit and loss statement.

67. (C) Both I and II

The payable holding ratio is calculated by dividing the average level of accounts payable by the total purchases and then multiplying by three hundred sixty-five. This metric reveals the average number of days an entity takes to pay its suppliers. Both statements correctly describe the formula and its purpose, which is to assess the credit terms and payment efficiency of the company.

68. (A) I and II only

The cash flow statement highlights the relationship between accrual-based profitability and actual cash generation. It also allows for the evaluation of past cash flow projections by comparing them with actual results in terms of amount and timing. However, the CFS focuses on cash movements rather than asset valuation methods, meaning it does not provide details on how intangible assets are valued.

69. (A) P-3, Q-2, R-4, S-1

The current ratio is a liquidity ratio measuring short-term health. Return on capital employed is a profitability ratio assessing earnings efficiency. The debt-equity ratio is a solvency or leverage ratio showing the financial structure. The inventory turnover ratio is a turnover ratio reflecting operational activity. These classifications help financial analysts organize their evaluation of a company's performance across different dimensions of financial health.

70. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

In funds flow analysis, any increase in a liability account is considered a source of funds. This is because liabilities represent the various ways an enterprise obtains capital, whether through loans, credit from suppliers, or equity. Therefore, an increase indicates that additional financial resources have been provided to the enterprise, making the reason a direct and valid explanation for the assertion.

71. (B) It involves adding imagination and flavour to facts and figures without breaking any specific rules.

Creative accounting refers to the practice of using accounting knowledge to influence the

reported figures in financial statements while technically remaining within the bounds of the law and accounting standards. It involves choosing specific accounting policies or estimates to present the company in the most favorable light. Unlike fraud, which breaks rules, creative accounting exploits flexibility and loopholes within the existing regulatory framework.

72. (A) To assess credit needs and activity viability by anticipating future operations and financial position.

Projected financial statements are essential for bankers because lending is a forward-looking activity. These projections help the banker estimate the borrower's future credit requirements and evaluate whether the business will generate sufficient cash flow to repay the loan. By analyzing anticipated operations and financial positions, the banker can determine the viability of the proposed activity and mitigate potential credit risks.

73. (A) A change of Independent/Statutory Auditors without any statutory requirement.

A sudden or frequent change in statutory auditors, when not required by law, serves as a primary warning sign for creative accounting. This may indicate that the previous auditors were uncomfortable with the company's accounting practices or that management is seeking a more compliant auditor. Such changes warrant careful investigation by credit officers to ensure the integrity of the financial disclosures.

74. (B) Assessing performance, projecting earnings, detecting danger signals, and assessing credit needs.

When analyzing financial statements, a banker focuses on evaluating past performance to project future earnings and growth. The goal is to detect any danger signals of financial distress and accurately determine the borrower's credit needs. This comprehensive assessment ensures that the loan is appropriately sized and that the borrower possesses the capacity to meet all future repayment obligations to the bank.

75. (A) I, II, and III only

According to Ind-AS 24, a person is a related party if they have control, joint control, or significant influence over the reporting entity. Members of key management personnel are also considered related parties. While a customer may be economically important due to a high volume of business, they are not classified as a related party simply by virtue of that commercial relationship.

76. (A) P-3, Q-2, R-4, S-1

Performance assessment reveals growth and profitability trends. Projecting future performance helps estimate earning prospects and growth rates. Detecting danger signals allows for preventive measures against losses. Examining funds flow ensures that bank resources are used for their intended purpose without diversion. Matching these purposes with their correct descriptions helps clarify the multifaceted objectives of financial analysis in a banking context.

77. (A) P-2, Q-1, R-4, S-3

Control involves the power to govern an entity's policies for benefit. Joint control is the contractually agreed sharing of that power. Key management personnel are those responsible for planning and directing activities. Significant influence is the power to participate in policy decisions without having full control. These precise definitions are essential for identifying related party relationships and ensuring transparent financial reporting under accounting standards.

78. (C) Rs. 3,00,000

In a rearranged balance sheet for credit analysis, net working capital is found by subtracting other current liabilities and bank finance from total current assets. Starting with ten lakh rupees in assets and subtracting four lakh in other current liabilities and three lakh in bank finance leaves a balance of three lakh rupees. This figure represents the long-term funds supporting the current assets.

79. (B) II only

Related party transactions are significant because they are common vehicles for financial irregularities, including fund diversion and

fraud. However, a transaction is defined as a transfer of resources or obligations regardless of whether a price is charged. Therefore, the first statement is incorrect because it wrongly implies that a price must be explicitly charged for a related party transaction to occur.

(D) I, II, III, IV, and V

A credit officer must examine several critical areas when rearranging financial statements, including term loan installments due within a year and tax provisions. Deferred tax items, non-moving inventory, and old receivables must also be scrutinized. These adjustments ensure that the resulting financial ratios accurately reflect the true liquidity, asset quality, and debt-serving capacity of the entity being analyzed for credit.

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CHAPTER 19

Working Capital Finance

Oct/Nov 2009

1. Match the financial method or instrument in List I with its core feature in List II.

List I: (Method/Instrument)

- P. Factoring
- Q. Forfaiting
- R. Commercial Paper
- S. TReDS

List II: (Core Feature)

- 1. Discounting of trade receivables of MSMEs via a screen-based electronic platform
 - 2. Unsecured promissory note issued by highly rated corporates
 - 3. Financing export receivables supported by bills/promissory notes, always without recourse
 - 4. Purchasing book debts and potentially administering the sales ledger
- (A) P-1, Q-3, R-2, S-4
 - (B) P-4, Q-3, R-2, S-1
 - (C) P-4, Q-2, R-3, S-1
 - (D) P-3, Q-4, R-1, S-2

May/June 2023

2. According to RBI guidelines, if a beneficiary of an LC wants to discount the bills with the LC issuing bank itself, the bank may do so ONLY under which of the following conditions?

- (A) If the primary beneficiary is a non-constituent entity that does not maintain any credit facility with the bank
- (B) If the instrument is an accommodation bill that lacks any genuine underlying commercial trade transactions
- (C) If the bank has sanctioned regular fund-based credit facilities to the specific beneficiary
- (D) If the bill of exchange is drawn by a designated front finance company belonging to a large industrial group

Oct/Nov 2018

3. How is Net Working Capital conceptually defined in the context of assessing working capital limits?

- (A) The portion of working capital requirements financed through long-term sources of funds
- (B) The portion of current assets financed exclusively through short-term bank credit facilities
- (C) The net difference between all long-term liabilities and the company's non-current fixed assets
- (D) The aggregate sum of trade-related suppliers' credit and other outstanding current liabilities

May/June 2007

4. Which of the following accurately reflects the RBI's stance on bills drawn 'without recourse'?

- (A) The practice of issuing letters of credit bearing the legend 'without recourse' is highly encouraged to protect the negotiating bank.
- (B) Banks are entirely prohibited from negotiating any bills drawn under LCs on a 'without recourse' basis.
- (C) The restriction on purchase of bills drawn otherwise than under LC on a 'without recourse' basis has been abolished.
- (D) Banks may negotiate bills drawn under LCs on a 'without recourse' basis as per their discretion and perception of the LC issuing bank's creditworthiness.

Oct/Nov 2025

5. An entrepreneur sets up a manufacturing enterprise. The snapshot of assets shows Fixed assets at Rs. 200 lakh, raw materials at Rs. 25 lakh, finished goods at Rs. 30 lakh, and receivables at Rs. 15 lakh. What is the total working capital requirement (Gross Working Capital) to run the enterprise smoothly, based on these figures?

- (A) Rs. 55 lakh
- (B) Rs. 70 lakh
- (C) Rs. 200 lakh
- (D) Rs. 270 lakh

May/June 2012

6. Consider the following statements regarding the Trade Receivables Discounting System (TReDS):
- I. TReDS is an institutional mechanism set up to facilitate the financing of trade receivables of MSMEs.
 - II. The system operates under the Payment & Settlement Systems Act, 2007.
 - III. TReDS only facilitates the discounting of invoices and explicitly prohibits the discounting of bills of exchange.
 - IV. The transactions processed under TReDS are “without recourse” to the MSMEs.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III only
 - (B) I, II, and IV only
 - (C) II, III, and IV only
 - (D) I, III, and IV only

Oct/Nov 2014

7. Arrange the following stages of the working capital cycle (operating cycle) in the correct chronological sequence for a typical manufacturing enterprise:
1. Selling finished goods on cash/credit basis
 2. Purchase of raw materials
 3. Receiving cash on sale or end of credit period
 4. Processing/conversion of raw materials into finished goods
- (A) 2, 4, 1, 3
 - (B) 1, 3, 2, 4
 - (C) 4, 1, 3, 2
 - (D) 2, 1, 4, 3

May/June 2019

8. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.
- Assertion (A): TReDS deals with both receivables factoring as well as reverse factoring.
- Reason (R): Dealing with both mechanisms

ensures that higher transaction volumes come into the system, facilitating better pricing.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2006

9. Consider the following statements regarding the working capital cycle:
- I. The longer the working capital cycle, the higher the working capital requirement and the need for maintaining current assets.
 - II. The correct assessment of this cycle is the most important part in a bank's assessment of gross working capital and bank finance.
- Which of the above statement(s) is/are correct?
- (A) Only Statement I is correct
 - (B) Only Statement II is correct
 - (C) Both Statements I and II are correct
 - (D) Neither Statement I nor II is correct

May/June 2021

10. What defines a “financial guarantee” as issued by a bank?
- (A) A guarantee for the reimbursement of monetary losses arising from the non-performance of a trade contract
 - (B) A guarantee for meeting financial obligations or dues, such as those in lieu of earnest money deposits
 - (C) A specific guarantee issued to ensure the satisfactory performance of supplied equipment or industrial projects
 - (D) An undertaking by the bank to pay the seller upon the submission of transport documents for an import transaction

Oct/Nov 2010

11. Why do banks typically stipulate a minimum Net Working Capital (NWC) to be brought in by the enterprise from its long-term sources?
- (A) To ensure a minimum current ratio of more

May/June 2020

outflows for a period like a month or a quarter.

- (B) The method calculates the exact depreciation and allocates it daily to assess the cash outflows accurately.
- (C) Bank finance is sanctioned equal to the cash deficit, if any, derived from the statement.
- (D) The opening cash balance and cash inflows are compared against normal cash outflows to find the deficit.

May/June 2017

24. Which statement accurately describes the relationship between an LC limit and a fund-based Working Capital (WC) limit?
- (A) The LC limit is treated as a completely independent facility that has no impact on the fund-based WC limit
- (B) Sanctioning an LC limit directly increases the overall fund-based requirements due to applicable charges
- (C) The LC limit is usually carved out of the total fund-based limit due to the credit provided by suppliers
- (D) The LC limit is added directly to the long-term liabilities shown on the balance sheet of the enterprise

Oct/Nov 2005

25. Regarding the post-demonetisation relaxations under the PAT Method for working capital assessment, consider the following statements:
- I. Units routing more than 25% of their turnover through digital modes are eligible for computation of WC requirement at 37.50% of projected annual turnover.
- II. For digital businesses (>25%), the bank credit limit is assessed at 30% of projected annual turnover.
- III. Units not routing even 25% through digital modes are assessed for WC requirement at 31.25% of projected annual turnover.
- IV. For non-digital units, the margin to be brought in is 6.25% of projected annual turnover.
- Which of the above statements is/are correct?
- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, III, and IV

26. Match the time components of a Letter of Credit (LC) in List I with their corresponding descriptions in List II.

List I: (Time Components)

- P. Lead time
- Q. Transit time
- R. Usance period
- S. Outstanding LC period

List II: (Description)

1. Time taken from the date of opening LC to shipment of goods
 2. Time taken for goods to travel to the purchaser
 3. Credit period available to purchaser from the date of receipt of goods
 4. The sum total of lead time, transit time, and usance period
- (A) P-1, Q-2, R-3, S-4
- (B) P-2, Q-1, R-4, S-3
- (C) P-3, Q-4, R-1, S-2
- (D) P-4, Q-3, R-2, S-1

Oct/Nov 2015

27. A wholesale trader has a projected annual turnover of Rs. 500 lakh and routes 40% of their turnover through digital modes. Applying the PAT method guidelines for units with >25% digital business, what will be the required margin in Rupees?
- (A) Rs. 25.00 lakh
- (B) Rs. 31.25 lakh
- (C) Rs. 37.50 lakh
- (D) Rs. 150.00 lakh

May/June 2013

28. Which of the following pairs is incorrectly matched regarding the parameters of working capital assessment?
- (A) Annual Consumption / EOQ — Frequency of opening LCs in a year
- (B) Economic Order Quantity (EOQ) — Often larger in case of imports compared to indigenous purchases
- (C) Total LC limit — Calculated as (Number of LCs outstanding at a point of time) multiplied by (Amount of each LC)
- (D) Average Amount of Each LC — Dependent on monthly consumption and EOQ

Oct/Nov 2007

17. Under the Third Method of Lending, the enterprise was required to bring in 100 per cent of those current assets which are considered 'core assets', and an additional NWC contribution. What was this additional requirement?
- (A) 25 per cent of the working capital gap
 - (B) 25 per cent of the remaining current assets
 - (C) 25 per cent of the total current assets
 - (D) 100 per cent of the remaining current assets

May/June 2025

18. Under what condition is the requirement of an inalienable right over the security NOT insisted upon for custodian banks issuing IPCs?
- (A) When the underlying commercial transaction involves only non-resident Indians residing outside of India
 - (B) When the maturity of the IPC instrument is extended beyond the standard regulatory period of 10 years
 - (C) When the transaction is pre-funded with clear INR funds available in the customer's account
 - (D) When the issuing bank currently maintains no prior credit facility or existing relationship with the customer

Oct/Nov 2019

19. An enterprise has projected total current assets of Rs. 200 lakh. Its total current liabilities (excluding bank finance) are projected at Rs. 80 lakh. If the bank assesses the working capital limit using the First Method of Lending, what is the minimum Net Working Capital (NWC) the enterprise must bring in?
- (A) Rs. 30 lakh
 - (B) Rs. 50 lakh
 - (C) Rs. 20 lakh
 - (D) Rs. 80 lakh

May/June 2009

20. Which of the following safeguards advised by RBI for co-acceptance of bills is incorrectly stated?
- (A) Limits should be extended only to those customers who enjoy other limits with the bank.
 - (B) Banks should ensure that the goods

covered by co-accepted bills are actually received in the stock accounts of the borrowers.

- (C) Valuation of the goods in the accompanying invoice should be verified to see that there is no over-valuation.
- (D) Co-acceptances in respect of bills for Rs. 10,000 and above must always be signed by a single authorized official regardless of availability.

Oct/Nov 2011

21. An enterprise's total current assets are Rs. 400 lakh, out of which core assets are Rs. 100 lakh. The total current liabilities excluding bank finance are Rs. 120 lakh. Under the Third Method of Lending, what is the minimum NWC the enterprise must provide?
- (A) Rs. 100 lakh
 - (B) Rs. 125 lakh
 - (C) Rs. 75 lakh
 - (D) Rs. 175 lakh

May/June 2010

22. Consider the following statements regarding Letters of Credit (LC):
- I. The genesis of an LC is the mutual worry of the seller about receipt of money and the buyer about receipt of contracted goods.
 - II. An LC is an undertaking by the bank to pay the seller the contracted amount if she supplies the goods as per specified terms and submits required documents.
 - III. The LC is requested by the applicant (buyer).
 - IV. The conduct of LC business is governed by the publication UCPDC 600.
 - V. LC limits only apply to imported goods, never to indigenous local purchases.
- Which of the above statement(s) is/are correct?
- (A) I, II, III, and V
 - (B) I, II, III, and IV
 - (C) II, III, IV, and V
 - (D) I, II, IV, and V

Oct/Nov 2024

23. Which of the following statements concerning the Cash Budget Method of assessment is incorrect?
- (A) It is ideal for projecting cash inflows and

III. While specialized sectors like insurance, banking, and electricity companies have their own dedicated regulatory formats and are thus exempted from the general Schedule III requirements, standard manufacturing companies must strictly follow the prescribed formats to ensure consistency and transparency in their financial reporting to stakeholders.

51. (A) Non-operative income and non-operative expenses are weeded out.

To determine the operating profit, analysts must remove all non-operating items from the calculation. This includes excluding income from investments, gains from asset sales, and non-recurring expenses. By “weeding out” these elements, the resulting ratio focuses exclusively on the profitability of the company’s core business operations, providing a more accurate measure of its fundamental earning capacity and efficiency.

52. (D) Yes, because it is expected to be consumed in the company’s normal operating cycle.

An asset is classified as current if it is expected to be realized or consumed within the entity’s normal operating cycle. If a specialized manufacturing process naturally takes fifteen months, that duration defines the operating cycle. Therefore, raw materials used in that process are correctly classified as current assets, even though the time frame exceeds the standard twelve-month benchmark generally applied.

53. (D) Debt Equity Ratio formula for overall solvency — Total Current Assets divided by Net Worth

Solvency or leverage ratios measure the long-term stability of an entity. Total outside liability combines term and current liabilities, while tangible net worth excludes intangibles from equity. The debt-equity ratio typically compares long-term debt to equity or total liabilities to net worth. Defining the debt-equity ratio as total current assets divided by net worth is incorrect, as that formula does not reflect leverage.

54. (C) The company has an unconditional right to defer settlement for at least twelve months. A liability is classified as current if it is expected to be settled within the operating cycle, held for trading, or due within twelve months. Conversely, having an unconditional right to defer settlement for at least twelve months after the reporting date is the primary criterion for classifying a liability as non-current. Therefore, this specific condition excludes an obligation from the current liability category.

55. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

A conservative credit analysis involves deducting loans and investments in associate companies from the tangible net worth. This is because these funds have exited the borrower’s immediate operations and may be at risk if the group entities face difficulties. Since risks across related entities are often linked, reducing the TNW by these amounts provides a more realistic view of the available equity.

56. (A) Brands/trademarks — Intangible assets
Financial statements classify assets based on their physical nature. Brands, trademarks, mastheads, and publishing titles lack physical substance and are therefore categorized as intangible assets. In contrast, plant and equipment are tangible assets. Capital work-in-progress refers to tangible assets under construction, while intangible assets under development are categorized separately, making the pairing of brands with intangible assets the only correct choice.

57. (A) 2.0
Net Debt Service Coverage Ratio is calculated by dividing the cash accrual by the total term loan installments. Cash accrual is the sum of net profit and non-cash expenses like depreciation, which totals five lakh rupees in this example. Dividing this five lakh by the two lakh fifty thousand in installments results in a net DSCR of two point zero.

58. (A) P-3, Q-4, R-1, S-2
Provisions for employee benefits are classified as short-term provisions. Stock-in-trade is a component of inventories. Cheques and drafts

Oct/Nov 2021

29. When comparing the Holding Norms method, Cash Budget method, and Turnover method, which of the following is NOT a correct inference regarding their suitability?
- (A) The cash budget method is more suitable for activities with wide fluctuations from month to month.
- (B) The turnover method is highly suitable for large corporations executing complex, long-term project contracts.
- (C) The holding method is based on the estimate of average parameters over the next one year.
- (D) The holding method is more suitable for activities with relatively uniform operations and non-volatile market conditions.

May/June 2024

30. Arrange the following events in the lifecycle of an outstanding Letter of Credit in chronological order:
1. Expiry of the usance period and payment to the supplier
 2. Opening of the LC by the bank
 3. Shipment of goods (end of lead time)
 4. Receipt of goods by the purchaser (end of transit time)
- (A) 2, 3, 4, 1
(B) 2, 4, 3, 1
(C) 3, 2, 4, 1
(D) 4, 3, 2, 1

Oct/Nov 2008

31. Why is the turnover method deemed more suitable for small enterprises?
- (A) Because it accurately projects daily cash flows for the entire financial year.
- (B) Because it completely eliminates the need for any margin money from the promoters.
- (C) Because small enterprises only execute seasonal project contracts.
- (D) Because detailed financial records may not be available with small enterprises.

May/June 2006

32. For an import transaction, the lead time is estimated at 15 days, transit time is 30 days, and the usance period granted is 4 months. Approximately what is the total time for

which a single LC will remain outstanding? (Assuming 1 month = 30 days for simplicity)

- (A) 4.0 months
(B) 4.5 months
(C) 5.5 months
(D) 6.0 months

Oct/Nov 2017

33. Consider the following statements based on RBI guidelines for working capital limits to the Information Technology and Software industry:
- I. Banks may consider sanction of limits based on promoters' track record and management team composition.
 - II. For borrowers with limits up to Rs. 2 crores, assessment may be made at 20 per cent of the projected turnover.
 - III. Banks are strictly prohibited from obtaining collateral security for these advances.
 - IV. For borrowers enjoying limits of Rs. 10 crores and above, guidelines regarding the loan system would be applicable.
 - V. Banks could obtain quarterly statements of cash flows to monitor operations if sanction wasn't made on cash budget basis.
- Which of the above statement(s) is/are correct?
- (A) I, II, III, and V
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

May/June 2008

34. Match the characteristic of Commercial Paper in List I with its corresponding requirement or definition in List II.
- List I: (Characteristic)
- P. Nature of Instrument
Q. Minimum tangible net worth to issue CP
R. Minimum credit rating for issuance
S. Maximum maturity period
- List II: (Requirement/Definition)
1. Rs. 4 crores
 2. Up to one year from the date of issue
 3. 'A3'
 4. Unsecured money market instrument
- (A) P-4, Q-1, R-3, S-2
(B) P-2, Q-3, R-1, S-4

including Net Working Capital.

Oct/Nov 2025

47. Which of the following entities act as direct participants in the TReDS platform?
- (A) Only MSME sellers and registered NBFC Factors providing short-term receivable financing
 - (B) Only authorized Government Departments and registered Foreign Institutional Investors
 - (C) Only the Reserve Bank of India and designated Primary Dealers in the money market
 - (D) MSME sellers, corporate buyers, and financiers such as banks and NBFC Factors

May/June 2012

48. The length of the cash-to-cash cycle in an operating cycle depends on multiple factors. Which of the following does NOT directly determine the length of this cycle?
- (A) The stocks of raw materials required to be held
 - (B) The credit required to be provided to the purchasers
 - (C) The stock of finished goods to be carried before moving to buyers
 - (D) The depreciation method applied to the fixed assets

Oct/Nov 2014

49. Consider the following statements regarding Non-Fund Based Working Capital Limits:
- I. In providing non-fund based facilities, there is no immediate outlay of funds by the banks.
 - II. These items appear in the assets of the bank's balance sheet from the date of issuance.
 - III. They appear in the contingent liabilities of both the bank and the enterprise.
 - IV. If a liability arises, the bank has to fulfill its obligation and seek reimbursement from the enterprise.
 - V. Bank guarantees and letters of credit are prime examples of non-fund based limits.
- Which of the above statement(s) is/are correct?
- (A) I, II, III, and V
 - (B) I, III, IV, and V
 - (C) II, III, IV, and V

(D) I, II, IV, and V

May/June 2019

50. Which of the following correctly pairs the liquidity stipulation made by a bank with its intended purpose during working capital assessment?
- (A) Minimum Suppliers' Credit — To increase the length of the working capital cycle
 - (B) Minimum Fixed Assets — To provide maximum bank finance
 - (C) Minimum Net Working Capital — To ensure a minimum current ratio of more than one
 - (D) Minimum Core Assets — To reduce the requirement of internal accruals

Oct/Nov 2006

51. According to RBI's General Guidelines on Guarantees, consider the following statements:
- I. Banks should confine themselves to the provision of financial guarantees and exercise due caution with regard to performance guarantee business.
 - II. Bank guarantee should normally have a maturity of not more than 10 years.
 - III. For guarantees beyond 10 years, banks must consider the impact on Asset Liability Management.
 - IV. Unsecured guarantees on account of any individual constituent should be limited to a reasonable proportion of the bank's total unsecured guarantees.
 - V. Banks are completely forbidden from giving deferred payment guarantees on an unsecured basis under any circumstance.
- Which of the above statement(s) is/are correct?
- (A) I, II, III, and IV
 - (B) I, III, IV, and V
 - (C) II, III, IV, and V
 - (D) I, II, IV, and V

May/June 2021

52. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.
- Assertion (A): In the Holding Norms Based Method, estimating future turnover for new enterprises is based on production capacity,

- II. The trade credit period for import of non-capital goods can be up to one year from the date of shipment or up to the operating cycle whichever is lower.
 - III. The trade credit period for import of capital goods can be up to five years from the date of shipment.
 - IV. AD Category-I bank can permit trade credit up to USD 20 mn equivalent per import transaction.
 - V. The all-in-cost of such trade credit must be fixed at zero percent as per RBI mandate.
- Which of the above statement(s) is/are correct?
- (A) I, II, III, and IV
 - (B) I, II, IV, and V
 - (C) II, III, IV, and V
 - (D) I, III, IV, and V

Oct/Nov 2023

41. Consider the following statements:
- I. If negotiation of bills drawn under LC is restricted to a particular bank, and the beneficiary is not a constituent, the bank may negotiate the LC if proceeds are remitted to the regular banker of the beneficiary.
 - II. The prohibition regarding negotiation of unrestricted LCs of non-constituents has been lifted by the RBI.
- Which of the above statement(s) is/are correct?
- (A) Only Statement I is correct
 - (B) Only Statement II is correct
 - (C) Both Statements I and II are correct
 - (D) Neither Statement I nor II is correct

May/June 2016

42. Money blocked in current assets like raw materials, finished goods, and receivables is called:
- (A) Fixed Capital
 - (B) Working Capital
 - (C) Capital Work in Progress
 - (D) Long-term liabilities

Oct/Nov 2009

43. How should bills negotiated under LC where the payment to the beneficiary is not made 'under reserve' (clean negotiations) be treated for capital adequacy purposes?
- (A) As an exposure on the LC issuing bank

with the standard risk weight for inter-bank exposures

- (B) As a direct credit exposure on the borrowing entity with the risk weight assigned accordingly by the bank
- (C) As a standard unsecured advance with a fixed 100% risk weight regardless of the specific issuing bank's rating
- (D) As a standard contingent liability item carrying a zero risk weight for the purpose of capital adequacy

May/June 2023

44. What term is used to denote the total requirement of current assets of an enterprise?
- (A) Net Working Capital
 - (B) Tangible Net Worth
 - (C) Gross Working Capital
 - (D) Core Current Assets

Oct/Nov 2018

45. Which of the following statements regarding discounting and rediscounting of bills is incorrect?
- (A) Bills rediscounts should be restricted to usance bills held by other banks.
 - (B) Accommodation bills should be actively discounted to support group companies during liquidity crises.
 - (C) Banks should not rediscount bills earlier discounted by NBFCs, except for bills arising from the sale of light commercial vehicles and two/three wheelers.
 - (D) Services sector bills should not be eligible for rediscounting.

May/June 2007

46. Which of the following statements is incorrect regarding the components and sources of working capital?
- (A) Gross working capital is met by short-term credit available and some amount arranged through long-term funds.
 - (B) Working capital includes money blocked in current assets like raw materials and receivables.
 - (C) Suppliers' credit and other credit available are considered part of the long-term funds forming the Net Working Capital.
 - (D) Bank finance is intended to bridge the gap between total current assets needed and the funds available from other sources

May/June 2014

58. Match the Method of Lending in List I with its corresponding Net Working Capital (NWC) requirement stipulation in List II.

List I: (Method of Lending)

- P. First Method of Lending
Q. Second Method of Lending
R. Third Method of Lending
S. Projected Turnover Method (Nayak Committee)

List II: (NWC Requirement Stipulation)

1. Minimum 5% of annual turnover brought in as margin
 2. NWC of at least 25% of total current assets
 3. NWC of at least 25% of the working capital gap
 4. NWC of 100% of core assets plus 25% of remaining current assets
- (A) P-2, Q-3, R-1, S-4
(B) P-3, Q-2, R-4, S-1
(C) P-4, Q-1, R-3, S-2
(D) P-1, Q-4, R-2, S-3

Oct/Nov 2007

59. A stock broker requests a bank guarantee of Rs. 100 lakh in favour of the National Stock Exchange in lieu of margin requirements. Based on RBI guidelines, what is the minimum total margin and the minimum cash margin the bank must obtain?
- (A) Minimum total margin of Rs. 50 lakh; minimum cash margin of Rs. 25 lakh.
(B) Minimum total margin of Rs. 25 lakh; minimum cash margin of Rs. 10 lakh.
(C) Minimum total margin of Rs. 50 lakh; minimum cash margin of Rs. 50 lakh.
(D) Minimum total margin of Rs. 100 lakh; minimum cash margin of Rs. 25 lakh.

May/June 2025

60. A firm has projected total current assets of Rs. 300 lakh and total current liabilities (excluding bank finance) of Rs. 100 lakh. Under the Second Method of Lending, what will be the permissible bank finance, assuming the enterprise brings in the exact minimum required NWC?
- (A) Rs. 150 lakh
(B) Rs. 200 lakh
(C) Rs. 125 lakh
(D) Rs. 75 lakh

Oct/Nov 2019

61. Consider the following regarding the appraisal of Guarantee/Co-acceptance limits:

- I. Guarantees may be required by an enterprise on a regular basis or an ad-hoc basis.
- II. The sanction of a regular BG limit is typical for contractors who must provide guarantees for security deposits of tenders.
- III. The bank must examine the impact of sanction of a guarantee limit on the fund based requirements of the borrower.
- IV. A guarantee issued in respect of receipt of advance payment will generally increase the fund based need of the enterprise.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, and IV only

May/June 2009

62. Consider the following statements regarding the current ratios resulting from different methods of lending:

- I. The second method of lending results in a current ratio of at least 1.33.
- II. The first method of lending always results in a current ratio higher than that of the second method.

Which of the above statement(s) is/are correct?

- (A) Only Statement I is correct
(B) Only Statement II is correct
(C) Both Statements I and II are correct
(D) Neither Statement I nor II is correct

Oct/Nov 2011

63. To assess the Letter of Credit requirement of an enterprise, the bank needs to know several factors. Which of the following is NOT one of those core factors explicitly mentioned for assessing an LC limit?

- (A) Average Amount of Each LC based on Economic Order Quantity (EOQ)
(B) The credit rating of the seller's negotiating bank
(C) Frequency of LC Opening
(D) Time taken for one LC to remain outstanding

proposed market share, and availability of raw materials.

Reason (R): Accurate estimation of future turnover is simple and rarely an area of disagreement between the bank and the borrower.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2010

53. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): Guarantees furnished by banks in favour of Government Departments in the name of the President of India should have correspondence exchanged directly with the President of India.

Reason (R): Alterations or additions to the clauses in the Model Form of Bank Guarantee Bond must not be one-sided and should be made in agreement with the guaranteeing bank.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2005

54. Which of the following is NOT typically considered a source for meeting the working capital requirement of an enterprise?
- (A) Own Sources (Net Working Capital)
 - (B) Suppliers' Credit
 - (C) Capital invested in fixed plant and

machinery

- (D) Other Current Liabilities like salaries payable

Oct/Nov 2022

55. How does a bank's co-acceptance of bills primarily benefit the purchaser (the bank's customer)?
- (A) It completely eliminates the purchaser's legal obligation to pay the supplier for goods at any future date
 - (B) It facilitates supplier credit by guaranteeing payment, thus reducing the purchaser's fund-based needs
 - (C) It formally converts a short-term bill of exchange into a permanent long-term capital liability of the firm
 - (D) It triggers an immediate legal transfer of ownership of the purchaser's firm to the underlying supplier

May/June 2018

56. Under the First Method of Lending recommended by the erstwhile Tandon committee, the enterprise was required to bring in Net Working Capital (NWC) of at least what percentage?
- (A) 25 per cent of the working capital gap
 - (B) 25 per cent of the total current assets
 - (C) 100 per cent of those current assets considered 'core assets'
 - (D) 20 per cent of the annual turnover

Oct/Nov 2016

57. A construction company approaches its bank for two guarantees. Guarantee X is required by the municipal corporation to ensure that a new bridge is constructed to specifications within 18 months. Guarantee Y is required by the customs department in lieu of a cash security deposit for imported machinery. How should the bank classify these guarantees?
- (A) Guarantee X is a Performance Guarantee; Guarantee Y is a Financial Guarantee.
 - (B) Guarantee X is a Financial Guarantee; Guarantee Y is a Performance Guarantee.
 - (C) Both Guarantee X and Guarantee Y are Performance Guarantees.
 - (D) Both Guarantee X and Guarantee Y are Financial Guarantees.

NODIA

ANSWERS

1. (B) P-4, Q-3, R-2, S-1
Factoring involves purchasing book debts and managing ledgers. Forfaiting is non-recourse export financing. Commercial paper is an unsecured promissory note for corporates. TReDS is an electronic platform for discounting MSME receivables. These instruments provide liquidity by converting future receivables into immediate cash or through short-term borrowing based on the creditworthiness of the participants and institutions involved in transactions.
2. (C) If the bank has sanctioned regular fund-based credit facilities to the specific beneficiary Banks are allowed to discount bills for a beneficiary under an LC they issued themselves only if the beneficiary has sanctioned fund-based credit facilities with that bank. This ensures that the bank has conducted a thorough credit appraisal of the party and is managing the overall exposure within established risk parameters for that specific borrowing entity and its operations.
3. (A) The portion of working capital requirements financed through long-term sources of funds
Net Working Capital represents the portion of an enterprise's working capital that is funded through long-term sources, such as owner's equity or long-term loans. It acts as a safety margin and indicates the firm's ability to cover its short-term obligations using its current assets, reflecting the overall liquidity and financial stability of the business in its operations.
4. (D) Banks may negotiate bills drawn under LCs on a 'without recourse' basis as per their discretion and perception of the LC issuing bank's creditworthiness.
Banks have the discretion to negotiate bills drawn under Letters of Credit on a without recourse basis. This decision depends on the negotiating bank's evaluation of the creditworthiness of the bank that issued the Letter of Credit. This practice allows the negotiating bank to manage its risk while providing financing to the seller based on the issuing bank's guarantee.
5. (B) Rs. 70 lakh
Gross Working Capital is the total value of current assets required for operations. In this scenario, it includes raw materials, finished goods, and receivables, totaling seventy lakh. Fixed assets are excluded from this calculation as they represent long-term investments rather than operational funds. Understanding this total requirement is essential for determining the necessary short-term funding for the enterprise's smooth functioning.
6. (B) I, II, and IV only
The Trade Receivables Discounting System is an institutional mechanism for MSME financing operating under the Payment and Settlement Systems Act. It facilitates the discounting of both invoices and bills of exchange. Crucially, transactions on this platform are without recourse to the MSME sellers, ensuring they receive immediate payment without the risk of future liability if the buyer defaults on payment.
7. (A) 2, 4, 1, 3
The operating cycle begins with the purchase of raw materials, followed by their processing into finished goods. These goods are then sold to customers on either a cash or credit basis. The cycle concludes when cash is finally received from these sales or at the end of the credit period, providing the liquidity needed to restart the entire procurement process.
8. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The Trade Receivables Discounting System handles both standard factoring and reverse factoring. By including both mechanisms, the platform attracts higher transaction volumes. This increased volume creates a more competitive environment among financiers, which ultimately leads to better pricing and lower costs for the participants. Both statements

May/June 2010

64. Consider the following statements regarding the Projected Turnover Method (Nayak Committee method) for Micro and Small Enterprises (MSEs):

- I. It is assumed that the enterprise needs 25% of its annual turnover as gross working capital.
- II. Out of the required working capital, 20% of the turnover will be provided by the bank and 5% will be brought in as margin.
- III. RBI advises banks to compute credit limits based on a minimum of 20% of estimated annual turnover for MSEs with credit limits up to Rs. 10 crores.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

Oct/Nov 2024

65. A manufacturing unit typically utilizes a fund-based working capital limit of Rs. 500 lakh. It recently secured a facility for co-acceptance of bills amounting to Rs. 100 lakh, allowing it to get extended credit from a major supplier. How will this co-acceptance limit generally affect its fund-based WC limit assessment?

- (A) The total fund-based limit will be increased to Rs. 600 lakh to accommodate the new co-acceptance facility
- (B) The co-acceptance limit is carved out of the fund-based limit, reducing the fund-based utilization needed
- (C) The fund-based limit will remain completely unchanged because non-fund limits carry no immediate fund risk
- (D) The co-acceptance limit will be formally converted into a long-term loan for the acquisition of new machinery

May/June 2017

66. A small manufacturing unit projects its annual turnover at Rs. 400 lakh. The unit does not route 25% of its turnover through digital modes. Under the post-demonetisation PAT method relaxations, what will be the Working Capital Limit sanctioned by the bank?

- (A) Rs. 80 lakh
- (B) Rs. 100 lakh

- (C) Rs. 125 lakh
- (D) Rs. 150 lakh

Oct/Nov 2005

67. In determining the Average Amount of Each LC based on the Economic Order Quantity (EOQ), consider the following factors:

- I. Sources of supply
 - II. Means of transport
 - III. The personal net worth of the seller
- Which of the above factor is/are examined?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

May/June 2020

68. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): For units where the working capital cycle is more than 3 months, banks normally assess the requirement on the basis of holding norms also, and sanction the limit whichever is higher.

Reason (R): The RBI guidelines of minimum 20% of turnover for bank finance may result in under-financing for units with a working capital cycle longer than 3 months.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2015

69. An infrastructure contractor has an assessed total fund-based working capital limit requirement of Rs. 800 lakh. The firm secures a bank guarantee of Rs. 200 lakh for the receipt of an advance payment from a project authority. Since this advance payment reduces the firm's need to block its own funds, how should the bank treat this BG limit?

- (A) The BG limit should be sanctioned as an

- (C) P-4, Q-2, R-3, S-1
(D) P-3, Q-4, R-1, S-2

Oct/Nov 2013

35. Regarding the methods of sales and receivables finance, consider the following statements:

- I. If credit sales are based on invoices alone, the amount receivable is represented as 'book debts' or 'sundry debtors'.
- II. A demand bill is drawn if credit is to be provided to the customer for a specific period.
- III. The bank calculates the drawing power against book debts by deducting the applicable margin from the submitted statement.
- IV. The advantage of sales under bills of exchange is increased legal protection under the NI Act in case of default.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, and IV only

May/June 2015

36. What is a distinguishing operational feature of "Factoring" compared to normal bills discounting?

- (A) The factor relies exclusively on the registered fixed assets of the client as primary collateral security
- (B) The factor only purchases the outstanding book debts with a clause for strict recourse to the client
- (C) The factor must be a central or state government department to operate within the national framework
- (D) The factor purchases book debts and provides sales ledger administration and credit control services

Oct/Nov 2012

37. What is an usance bill in the context of bills finance?

- (A) A commercial bill of exchange drawn when no credit is provided, requiring immediate payment from the purchaser upon presentation
- (B) A purely contingent liability item that is not formally recorded in the standard

accounting ledger books of the drawer

- (C) A specific bill drawn for the financial accommodation of group companies without any underlying commercial trade transaction

- (D) A bill of exchange specifying a credit period, drawn on and accepted by the purchaser for sales transactions

May/June 2011

38. Consider the following statements regarding Forfaiting:

- I. It is similar to factoring but is used only in case of exports and where the sale is supported by bills of exchange/promissory notes.
- II. Forfaiting is always executed with recourse to the client.
- III. EXIM Bank and AD Category – I banks have been permitted to undertake forfaiting for financing export receivables.

Which of the above statement(s) is/are correct?

- (A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2020

39. Which of the following pairs concerning the treatment of bills purchased/discounted is incorrectly matched based on the assessment of working capital finance?

- (A) Bills discounted by bank — Added to both current assets and liabilities at the time of assessment to get a realistic picture
- (B) Bills negotiated — Added as a counterparty exposure to the drawer because probability of recourse is extremely high
- (C) Drawer of the bill — The seller, who is a customer of the financing bank
- (D) Demand bill purchased — Immediate credit provided to the seller, potentially up to 100 per cent of the bill amount

May/June 2022

40. Regarding Rupee (INR) Denominated trade credit raised by a resident importer, consider the following statements:

- I. It can be raised for import of all items (except gold) permissible under the extant Foreign Trade Policy.

- (A) Purchase — Usance bills
- (B) Discount — Demand bills
- (C) Negotiation — Bills drawn under letters of credit opened by the purchaser's bank
- (D) Collection — Bills completely lacking any transport documents

Oct/Nov 2013

77. Regarding export factoring on a non-recourse basis by AD Category – I banks, consider the following statements:

- I. AD banks may enter into export factoring arrangements on a non-recourse basis.
- II. Banks should ensure that their client is not over-financed.
- III. Notation should be made on the invoice that the importer has to make payment to the Import Factor.
- IV. The exporter completely retains the responsibility of credit evaluation of the correspondent bank abroad.

Which of the above statement(s) is/are correct?

- (A) I, II, and IV only
- (B) I, II, and III only
- (C) II, III, and IV only
- (D) I, III, and IV only

May/June 2015

78. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): In case of purchase/discount/negotiation of the bill by the bank, the outstanding amount of bills is not represented in the assets in the accounting books of the drawer.

Reason (R): The bills may be represented in the drawer's contingent liabilities if the bills are not 'without recourse to drawer'.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is

true.

Oct/Nov 2012

79. A factoring company seeks financial assistance from a commercial bank. To comply with RBI criteria for such bank finance, the factoring company demonstrates that 60 per cent of its total income comes from factoring activities, and the receivables purchased form 80 per cent of its assets. Will the bank extend the financial assistance based on the prescribed thresholds?

- (A) Yes, because the total value of receivables purchased is above the prescribed 75 per cent threshold
- (B) Yes, because the calculated average of both specified financial parameters is at least 70 per cent
- (C) No, because factoring companies are entirely prohibited from obtaining any form of bank finance
- (D) No, as the income from factoring is below the required 75 per cent minimum threshold

May/June 2011

80. Consider the following statements regarding RBI guidelines for discounting/rediscouting of bills by banks:

- I. Banks should open letters of credit and purchase/discount bills under LCs only in respect of genuine commercial and trade transactions of their borrower constituents.
- II. Banks are encouraged to extend fund-based facilities like bills financing to non-constituent borrowers of a consortium arrangement.
- III. The procedure for Board approval of bills discounting policy should include the bank's core operating process from the time bills are tendered till they are realised.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

additional limit over and above the Rs. 800 lakh without adjustment.

- (B) The bank should double the fund-based WC limit to cover the BG risk.
- (C) The BG should be rejected as it interferes with working capital assessment.
- (D) A part of the BG limit may be carved out of the total fund-based WC limit.

May/June 2013

- 70.** A company submits a cash budget to its bank for the month of September. The Total Receipts (from Sale) are Rs. 980.00 lakh. Payment to suppliers is Rs. 686.00 lakh, Expenses Paid are Rs. 55.00 lakh, and Interest Paid is Rs. 15.00 lakh. The Opening Balance at the start of September is Rs. (-837.00) lakh. What is the Surplus/Deficit for the month of September before adjusting the opening balance?
- (A) Deficit of Rs. 224.00 lakh
 - (B) Surplus of Rs. 143.00 lakh
 - (C) Surplus of Rs. 224.00 lakh
 - (D) Deficit of Rs. 613.00 lakh

Oct/Nov 2021

- 71.** An enterprise has an annual consumption of raw materials worth Rs. 12 crores. The Economic Order Quantity (EOQ) is estimated at Rs. 2 crores. What will be the frequency of opening LCs?
- (A) One LC every 1 month
 - (B) One LC every 2 months
 - (C) One LC every 3 months
 - (D) One LC every 6 months

May/June 2024

- 72.** According to Reserve Bank instructions regarding the assessment of MSME units, which of the following is correct?
- (A) All MSME units with credit limit up to Rs. 5 crores need to be necessarily assessed under the turnover method, subject to PAT method stipulations.
 - (B) All MSME units with credit limit up to Rs. 10 crores must be assessed solely using the Cash Budget method.
 - (C) MSME units are exempt from any margin requirements if they route transactions digitally.
 - (D) Banks are prohibited from assessing MSME units using holding norms under any circumstance.

Oct/Nov 2008

- 73.** A firm imports goods consuming Rs. 12 crores per year. The EOQ is Rs. 4 crores. The total time for which an LC remains outstanding is 5 months. Based on the formula applied by banks, how many LCs will be outstanding at any point of time, and what will be the total LC limit?
- (A) 2 LCs outstanding; Total LC limit Rs. 8 crores
 - (B) 3 LCs outstanding; Total LC limit Rs. 12 crores
 - (C) 1 LC outstanding; Total LC limit Rs. 4 crores
 - (D) 4 LCs outstanding; Total LC limit Rs. 16 crores

May/June 2006

- 74.** The Reserve Bank framed guidelines for extending working capital to the Information Technology and Software development industry based on the recommendations of which entity?
- (A) The Tandon Committee on Working Capital Norms
 - (B) The National Task Force on IT and Software Development
 - (C) The Nayak Committee on Credit to Small Scale Industries
 - (D) The Board for Financial Supervision of the Reserve Bank

Oct/Nov 2017

- 75.** According to RBI guidelines, which of the following is NOT a condition for a company to be eligible to issue Commercial Paper (CP)?
- (A) The company's account is classified as a Sub-Standard Asset by the financing bank
 - (B) The total tangible net worth of the company is verified to be not less than Rs. 4 crores
 - (C) The company has been previously sanctioned a regular working capital limit by banks or FIs
 - (D) The minimum credit rating obtained from an approved agency for the issuance is at least 'A3'

May/June 2008

- 76.** Which of the following correctly pairs the term used in bills finance with the nature of the bill involved?

are factually correct and logically linked in the context of MSME receivables financing.

9. (C) Both Statements I and II are correct

A longer working capital cycle directly increases the amount of funds tied up in current assets, necessitating higher working capital requirements. Because of this relationship, accurately assessing the length of this cycle is the most critical step for a bank when determining the appropriate level of gross working capital and the resulting bank finance needed to support the enterprise's operations.

10. (B) A guarantee for meeting financial obligations or dues, such as those in lieu of earnest money deposits

Financial guarantees are bank undertakings issued to ensure that a customer meets specific financial obligations or dues. Common examples include guarantees issued in place of cash security deposits or earnest money for tenders. Unlike performance guarantees, which relate to the quality or timing of work, financial guarantees focus strictly on the payment of monetary amounts should the customer fail to perform.

11. (A) To ensure a minimum current ratio of more than one is maintained by the enterprise

Banks stipulate a minimum Net Working Capital to ensure that a portion of current assets is funded by long-term sources. This requirement guarantees that the enterprise maintains a current ratio greater than one. A healthy current ratio indicates that the firm has sufficient liquidity to cover its short-term liabilities, thereby reducing the risk of financial distress and operational disruptions.

12. (A) Only Statement I is correct

Banks may provide non-fund based facilities to customers who do not have fund-based limits, provided they follow a Board-approved policy. However, banks must always obtain a declaration from such customers regarding any non-fund based credit facilities they already enjoy with other banks. This safeguard ensures that the bank is fully aware of the customer's total existing financial commitments and liabilities.

13. (B) Inventory

When using the holding norms method, the assessment of inventory levels requires analyzing several factors. These include the lead time for procurement, the minimum order quantities required by suppliers, and the geographical location of vendors. Additionally, the proportion of imported versus indigenous materials is considered to determine the appropriate amount of stock an enterprise must maintain to ensure uninterrupted production.

14. (D) I, II, and III

Banks can issue guarantees for share and stock brokers to meet stock exchange security or margin requirements. Regulatory guidelines mandate a minimum margin of fifty per cent for these guarantees. Furthermore, at least half of this total margin, which equals twenty-five per cent of the guarantee amount, must be maintained in the form of a cash margin to mitigate risks.

15. (D) The need for working capital finance from the bank is equal to the gap between total working capital and the availability of funds from all other sources, excluding bank finance.

Under the holding norms based method, bank finance is determined by calculating the difference between the total gross working capital requirement and the funds available from other sources. These other sources include the enterprise's own net working capital and credit provided by suppliers. The bank's role is to bridge this specific gap to ensure the enterprise has adequate operational liquidity.

16. (D) P-1, Q-3, R-4, S-2

Performance guarantees ensure contract completion, while financial guarantees replace security deposits. Co-acceptance of bills requires careful monitoring to ensure liabilities do not exceed resources. Letters of credit are internationally governed by UCPDC 600 regulations. Each of these facilities serves a distinct purpose in trade finance, and banks must apply specific appraisal methodologies to manage the associated risks effectively.

17. (B) 25 per cent of the remaining current assets

The Third Method of Lending required borrowers to provide a higher level of contribution from

finance needed to fund its operations. Because the firm's liquidity improves through this advance, the bank typically carves out the guarantee limit from the total assessed fund-based working capital requirement to reflect the borrower's reduced reliance on loans.

70. (C) Surplus of Rs. 224.00 lakh

To calculate the surplus or deficit, the total payments must be subtracted from the total receipts. The payments include supplier costs, expenses, and interest, totaling seven hundred fifty-six lakh. Subtracting this from the nine hundred eighty lakh in receipts leaves a surplus of two hundred twenty-four lakh. This calculation represents the net cash flow generated specifically during the month of September.

71. (B) One LC every 2 months

The frequency of opening Letters of Credit is determined by dividing the Economic Order Quantity by the total annual consumption. In this case, dividing the two-crore EOQ by the twelve-crore annual consumption results in a frequency of one-sixth of a year. This means the enterprise will need to open a new Letter of Credit every two months to maintain its supply chain.

72. (A) All MSME units with credit limit up to Rs. 5 crores need to be necessarily assessed under the turnover method, subject to PAT method stipulations.

According to current regulatory instructions, all MSME units with credit limits up to five crore rupees should be assessed using the turnover method. This assessment must also incorporate the specific stipulations of the post-demonetisation PAT method regarding digital and non-digital business categories. This standardized approach simplifies the credit assessment process for smaller businesses while ensuring adequate funding for their operations.

73. (A) 2 LCs outstanding; Total LC limit Rs. 8 crores

With a four-crore EOQ and twelve-crore annual consumption, an LC is opened every four months. Since each LC remains outstanding for five months, there will be more than one LC active at some points. Banks round up this

number, resulting in two outstanding LCs. Multiplying the two LCs by the four-crore EOQ gives a total required limit of eight crore rupees.

74. (C) The Nayak Committee on Credit to Small Scale Industries

The Reserve Bank of India developed guidelines for financing the Information Technology and software development industry based on recommendations from the Nayak Committee. This committee focused on the specific credit needs of small-scale industries and recognized that technology firms require different assessment approaches due to their unique asset structures and rapid growth patterns compared to traditional manufacturing enterprises.

75. (A) The company's account is classified as a Sub-Standard Asset by the financing bank

To be eligible to issue Commercial Paper, a company must maintain a strong financial standing. This includes having its account classified as a Standard Asset by its financing bank or financial institution. Furthermore, the company must meet specific tangible net worth requirements and obtain a minimum credit rating from an approved agency to ensure investors are protected from significant default risks.

76. (C) Negotiation — Bills drawn under letters of credit opened by the purchaser's bank

In trade finance, negotiation specifically describes the process where a bank provides finance against bills drawn under a Letter of Credit. This process is distinct from the purchase of demand bills or the discounting of usance bills that are not supported by such credits. The bank relies on the undertaking of the LC issuing bank when providing funds to the seller.

77. (B) I, II, and III only

Authorized banks can engage in non-recourse export factoring, where they assume the credit risk of the importer. In these arrangements, the bank must ensure no over-financing occurs and that invoices clearly state that payment should be made to the import factor. Because the factor assumes the risk, the exporter is no

percentages for requirements and margins apply as per the specified business categories.

26. (A) P-1, Q-2, R-3, S-4

The outstanding period of a Letter of Credit is the total time from issuance to final payment. Lead time covers the period until shipment. Transit time is the duration goods travel to the purchaser. The usance period is the credit duration provided after receipt. Summing these three components gives the total time the LC remains as an outstanding commitment for the bank.

27. (C) Rs. 37.50 lakh

For businesses with over twenty-five per cent digital turnover, the required margin under the PAT method is five per cent of the projected annual turnover. In this case, calculating five per cent of the five hundred lakh turnover results in a margin of twenty-five lakh. This margin represents the promoter's contribution toward the required working capital.

28. (C) Total LC limit — Calculated as (Number of LCs outstanding at a point of time) multiplied by (Amount of each LC)

While the total limit reflects the average amount and number of LCs, the specific formula for the total LC limit is typically derived from the average monthly consumption and the total time each LC remains outstanding. The number of outstanding LCs is itself a result of the frequency of opening and the total duration each instrument stays active until its final payment.

29. (B) The turnover method is highly suitable for large corporations executing complex, long-term project contracts.

The turnover method is a simplified assessment approach primarily intended for small enterprises that may not maintain elaborate financial records. Large corporations with complex, long-term project contracts require more sophisticated assessment methods, such as the cash budget method. This allows for a detailed analysis of month-to-month cash flows, which is essential for managing the large-scale financial requirements of such projects.

30. (A) 2, 3, 4, 1

The lifecycle of a Letter of Credit begins with the bank opening the instrument. The supplier then ships the goods, marking the end of the lead time. Next, the purchaser receives the goods after they have been in transit. Finally, the usance period expires, and the actual payment is made to the supplier, fulfilling the bank's commitment under the credit arrangement.

31. (D) Because detailed financial records may not be available with small enterprises.

Small enterprises often lack the sophisticated accounting systems and detailed historical financial data required for complex working capital assessments. The turnover method provides a simplified and practical alternative, allowing banks to estimate credit requirements based on a percentage of projected sales. This approach facilitates easier access to credit for smaller businesses while ensuring a basic level of financial discipline.

32. (C) 5.5 months

To find the total outstanding period, the lead time, transit time, and usance period must be added together. In this example, the lead time is fifteen days and the transit time is thirty days, totaling one point five months. Adding the four-month usance period results in a total duration of five point five months for which the Letter of Credit will remain outstanding.

33. (B) I, II, IV, and V

RBI guidelines for the IT and software industry allow banks to consider the track record of promoters and the management team. For small limits, assessment can be based on turnover percentages. For larger limits, the loan system applies. Banks may also use quarterly cash flow statements for monitoring. Importantly, there is no prohibition on obtaining collateral security for these types of advances.

34. (A) P-4, Q-1, R-3, S-2

Commercial Paper is an unsecured money market instrument issued as a promissory note. To be eligible, a company must have a minimum tangible net worth of four crore rupees and a credit rating of at least A3. These instruments have a maximum maturity of one year. They

provide highly rated corporates with a flexible way to raise short-term funds from the market.

35. (B) I, III, and IV only

When sales are made on credit without bills, they are recorded as book debts. Banks calculate drawing power against these debts by applying a margin. Using bills of exchange offers better legal protection under the Negotiable Instruments Act. However, demand bills are paid immediately upon presentation; usance bills, not demand bills, are used when credit is provided for a specific period.

36. (D) The factor purchases book debts and provides sales ledger administration and credit control services

Factoring is a comprehensive financial service where a factor purchases an enterprise's accounts receivable. Beyond providing immediate funds, the factor also takes over the administration of the sales ledger and performs credit control services. This distinguishes factoring from simple bill discounting, as it helps the client manage their receivables and collection processes more efficiently while improving their overall cash flow position.

37. (D) A bill of exchange specifying a credit period, drawn on and accepted by the purchaser for sales transactions

An usance bill is a formal commercial document used in credit sales. It specifies a predetermined period after which the payment must be made. The purchaser accepts the bill, acknowledging their obligation to pay the specified amount on the future maturity date. This instrument allows the seller to provide credit to the buyer while having a negotiable document that can be discounted.

38. (C) I and III only

Forfaiting is a specialized form of non-recourse financing for export receivables. It involves the purchase of medium to long-term negotiable instruments like bills of exchange or promissory notes. Because it is without recourse, the forfaiter assumes all risks of non-payment. Both EXIM Bank and authorized dealers are permitted to provide this service, helping exporters manage international credit risks effectively.

39. (B) Bills negotiated — Added as a counterparty exposure to the drawer because probability of recourse is extremely high

When a bank negotiates a bill drawn under a Letter of Credit, the primary risk is associated with the bank that issued the credit, not the drawer of the bill. Therefore, it is treated as an exposure to the LC issuing bank. The probability of recourse to the drawer is generally low because the issuing bank has already provided a payment guarantee.

40. (A) I, II, III, and IV

Residents can raise Rupee-denominated trade credit for most imports permitted under trade policy. The credit period is limited to one year for non-capital goods or three years for capital goods. Authorized banks can permit such credits up to fifty million dollars per transaction. While all-in-cost must be within benchmarks, the regulatory framework does not mandate a zero percent cost.

41. (A) Only Statement I is correct

If a Letter of Credit is restricted to a specific bank and the beneficiary is not their constituent, the bank can still negotiate the bill if the funds are sent to the beneficiary's regular banker. However, the RBI still maintains restrictions on negotiating unrestricted LCs for non-constituent entities to ensure proper monitoring and to maintain the integrity of the banking relationship.

42. (B) Working Capital

Working capital refers to the funds that are tied up in the day-to-day operations of a business. This includes investments in current assets such as raw materials, work-in-progress, finished goods, and outstanding receivables. Efficiently managing these resources is vital for maintaining liquidity and ensuring that the enterprise can meet its short-term operational expenses and financial obligations as they fall due.

43. (A) As an exposure on the LC issuing bank with the standard risk weight for inter-bank exposures

When a bank performs clean negotiations of bills under a Letter of Credit, it is essentially relying on the creditworthiness of the bank that

issued the instrument. For capital adequacy purposes, this transaction is classified as an exposure to the LC issuing bank. Consequently, the standard risk weight applicable to inter-bank exposures is used to calculate the required capital.

44. (C) Gross Working Capital

Gross Working Capital is the total amount of money invested in the current assets of a business. It encompasses all operational assets that are expected to be converted into cash within a single year or operating cycle. Monitoring this figure helps management and lenders understand the total scale of the funds required to support the continuous production and sales activities of the enterprise.

45. (B) Accommodation bills should be actively discounted to support group companies during liquidity crises.

Banks are strictly prohibited from discounting or rediscounting accommodation bills. These bills do not represent genuine commercial or trade transactions and are often used to create fictitious credit between parties. Discounting such bills increases financial risk and lacks an underlying movement of goods. Banks must ensure that all bills they finance arise from legitimate business activities and are properly documented.

46. (C) Suppliers' credit and other credit available are considered part of the long-term funds forming the Net Working Capital.

Net Working Capital is specifically defined as the portion of current assets funded by long-term sources, such as equity or long-term debt. In contrast, credit from suppliers and other short-term liabilities are considered current liabilities. These short-term sources reduce the total gap that must be financed by the bank, but they do not contribute to the enterprise's Net Working Capital position.

47. (D) MSME sellers, corporate buyers, and financiers such as banks and NBFC Factors

The Trade Receivables Discounting System platform involves three primary participants who interact to facilitate MSME financing. MSME sellers upload their invoices, which are then accepted by corporate or other buyers.

Financiers, including various banks and NBFC factors, then bid to discount these receivables. This digital ecosystem ensures that MSMEs receive timely payments while financiers gain access to high-quality, short-term assets.

48. (D) The depreciation method applied to the fixed assets

The cash-to-cash operating cycle is determined by operational factors such as the time needed to hold raw materials, the duration of the manufacturing process, and the credit period granted to customers. Since depreciation is a non-cash accounting allocation used to spread the cost of a fixed asset over its useful life, it has no direct impact on the physical movement of cash.

49. (B) I, III, IV, and V

Non-fund based limits, such as guarantees and letters of credit, do not involve an immediate movement of bank funds. These are recorded as contingent liabilities for both the bank and the enterprise. If the enterprise fails to meet its obligation, the bank must fulfill the payment and then seek reimbursement. These facilities only become fund-based assets on the balance sheet if invoked.

50. (C) Minimum Net Working Capital — To ensure a minimum current ratio of more than one

By requiring a minimum Net Working Capital, banks ensure that the enterprise's current assets are higher than its current liabilities. This mandatory buffer means the firm is bringing in long-term funds to support a portion of its operations. This requirement is designed to maintain a current ratio above one, which is a key indicator of a company's ability to meet obligations.

51. (A) I, II, III, and IV

RBI guidelines advise banks to prioritize financial guarantees and be cautious with performance guarantees. Guarantees should generally not exceed a ten-year maturity, and those that do must be evaluated for their impact on asset-liability management. Additionally, banks must limit unsecured guarantees for any single constituent. While restricted, unsecured

long-term sources. Under this method, the enterprise had to fund one hundred per cent of its core current assets using long-term funds. Additionally, the borrower was required to contribute twenty-five per cent of the remaining current assets as net working capital, further strengthening the firm's liquidity.

18. (C) When the transaction is pre-funded with clear INR funds available in the customer's account

For custodian banks issuing Inter-Institutional Promissory Notes, the requirement for an inalienable right over the security is waived if the transaction is fully pre-funded. This means the customer must have clear Indian Rupee funds available in their account to cover the obligation. In such cases, the availability of immediate cash eliminates the need for the bank to secure specific rights.

19. (A) Rs. 30 lakh

In the First Method of Lending, the working capital gap is calculated by subtracting current liabilities, excluding bank finance, from total current assets. Here, the gap is one hundred twenty lakh. The minimum net working capital required is twenty-five per cent of this gap. Calculating twenty-five per cent of one hundred twenty lakh results in a required contribution of thirty lakh.

20. (D) Co-acceptances in respect of bills for Rs. 10,000 and above must always be signed by a single authorized official regardless of availability.

For the co-acceptance of bills, banks must follow strict safeguards to prevent fraud and over-valuation. This includes verifying that goods are received and checking invoice values. While small co-acceptances might be signed by one official, larger amounts generally require dual signatures from authorized officials. Mandating only a single signature for larger transactions is incorrect and contrary to standard banking internal control procedures.

21. (D) Rs. 175 lakh

Under the Third Method of Lending, the net working capital is the sum of core assets and twenty-five per cent of the remaining current assets. Core assets are one hundred lakh. The

remaining current assets are three hundred lakh, and twenty-five per cent of that is seventy-five lakh. Adding these together results in a minimum net working capital requirement of one hundred seventy-five lakh.

22. (B) I, II, III, and IV

A Letter of Credit is a bank's undertaking to pay a seller if they fulfill specified terms and provide required documents. It addresses the mutual risks faced by buyers and sellers in trade. These instruments are used for both international and domestic transactions and are governed by international UCPDC 600 rules. The process is initiated by the buyer, who acts as the applicant.

23. (B) The method calculates the exact depreciation and allocates it daily to assess the cash outflows accurately.

The cash budget method focuses on actual cash inflows and outflows to determine the cash deficit and the required bank finance. Since depreciation is a non-cash accounting expense, it does not involve an actual movement of funds. Therefore, it is not included in the calculation of cash outflows when assessing an enterprise's short-term liquidity needs and bank credit limits.

24. (C) The LC limit is usually carved out of the total fund-based limit due to the credit provided by suppliers

A Letter of Credit facilitates supplier credit, which reduces the immediate need for fund-based working capital. Therefore, banks typically carve the LC limit out of the total assessed fund-based limit. This approach ensures that the total credit extended, both fund-based and non-fund based, remains within the enterprise's overall assessed requirement while reflecting the liquidity provided by the supplier's credit period.

25. (D) I, II, III, and IV

Following demonetisation, guidelines for the PAT method were adjusted to encourage digital transactions. Units with more than twenty-five per cent digital turnover have a higher assessed bank credit (twenty-five per cent of turnover). For non-digital units, the bank credit is fixed at twenty per cent of turnover. These specific

hundred lakh is two hundred twenty-five lakh. Subtracting the one hundred lakh in liabilities results in one hundred twenty-five lakh, which is the maximum amount the bank will finance.

61. (A) I, II, and III only

Banks must carefully evaluate the need for guarantee limits, which can be regular or ad-hoc. Regular limits are common for contractors. Banks must consider how these non-fund facilities affect the borrower's total financial requirements. For example, a guarantee for an advance payment provides the borrower with immediate cash, which actually reduces their need for fund-based working capital loans.

62. (A) Only Statement I is correct

The second method of lending requires the borrower to contribute more net working capital than the first method. Specifically, the borrower must fund twenty-five per cent of total current assets from long-term sources. This higher requirement ensures that the enterprise maintains a current ratio of at least one point three three, providing a stronger liquidity buffer compared to the first method's requirements.

63. (B) The credit rating of the seller's negotiating bank

To assess a Letter of Credit limit, a bank analyzes factors related to the borrower's procurement needs. This includes the average amount of each LC based on economic order quantity, the frequency of opening these instruments, and the total time each LC remains outstanding. The credit rating of the bank where the seller will negotiate the bill is not a primary factor.

64. (A) I and II only

The projected turnover method assumes that twenty-five per cent of turnover represents the total working capital requirement. Of this, the bank provides twenty per cent and the borrower provides five per cent as margin. While the method is standardized, the RBI advises banks to use it for enterprises with credit limits up to five crore rupees, rather than the ten crore limit.

65. (B) The co-acceptance limit is carved out of the fund-based limit, reducing the fund-based utilization needed

Co-acceptance of bills allows a purchaser to obtain credit from a supplier, which reduces their immediate need for a fund-based bank loan. Because this facility addresses a portion of the total working capital requirement, the bank usually carves the co-acceptance limit out of the overall fund-based limit. This ensures the borrower's total credit does not exceed their assessed operational needs.

66. (B) Rs. 100 lakh

For enterprises that do not route at least twenty-five per cent of their turnover digitally, the bank credit limit under the post-demonetisation PAT method is assessed at twenty per cent of the projected annual turnover. For a turnover of four hundred lakh, twenty per cent results in a working capital limit of eighty lakh, providing the necessary liquidity for the unit's operations.

67. (A) I and II only

When determining the average amount of each Letter of Credit, banks examine the sources of supply and the means of transport. These factors influence the lead time and the economic order quantity, which dictate how much must be ordered at one time. The personal net worth of the seller is irrelevant to calculating the operational size and frequency of the required credit.

68. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

A flat twenty per cent turnover rule for bank finance might not provide enough funding for businesses with working capital cycles longer than three months. To prevent under-financing in these cases, banks are permitted to use the holding norms method and may sanction a higher limit. This flexibility ensures that the enterprise has sufficient liquidity to cover its extended production and collection periods.

69. (D) A part of the BG limit may be carved out of the total fund-based WC limit.

A bank guarantee for an advance payment allows a firm to receive cash upfront from a client, which reduces the amount of bank

CHAPTER 20

Term Loans

May/June 2021

1. Match the specific financial mechanism in List I with its core characteristic in List II.

List I: (Financial Mechanism)

- P. Deferred Payment Guarantee (DPG)
- Q. Take-out Financing
- R. Partial Credit Enhancement (PCE)
- S. Standby Credit Facility

List II: (Core Characteristic)

- 1. Designed to enable banks to avoid asset-liability maturity mismatches by transferring outstandings.
- 2. A contingent line of credit aimed at upgrading the credit rating of corporate bonds.
- 3. Sanctioned at the time of initial financial closure to fund anticipated cost overruns.
- 4. A non-fund based method where the bank assures the supplier of fixed assets of scheduled repayments.

- (A) P-1, Q-2, R-3, S-4
- (B) P-4, Q-1, R-2, S-3
- (C) P-4, Q-2, R-1, S-3
- (D) P-3, Q-1, R-4, S-2

Oct/Nov 2014

2. As security is a cushion to fall back on in case of default, the bank needs to assess what will happen to recovery. Read the following ratios:

- I. Fixed Assets Coverage Ratio (FACR)
- II. Security Margin Coverage Ratio (SMCR)
- III. Debt Service Coverage Ratio (DSCR)

Which of the above ratios are explicitly assessed for the purpose of evaluating security and recovery?

- (A) II and III only
- (B) I and III only
- (C) I and II only
- (D) I, II, and III

May/June 2012

3. Banks normally provide working capital loans for which of the following purposes?

- (A) Sustaining the current assets level of a

business

- (B) Acquiring fixed assets like land and building
- (C) Financing personal consumption and educational needs
- (D) Funding long-term infrastructure projects

Oct/Nov 2025

4. The sectors included in the definition of “Infrastructure” are categorized into broad segments. Consider the following:

- I. Transport
- II. Energy
- III. Water & Sanitation
- IV. Communication
- V. Social and Commercial Infrastructure

Which of the above categories represent broad infrastructure sectors?

- (A) I, II, III, and IV only
- (B) II, III, IV, and V only
- (C) I, III, IV, and V only
- (D) I, II, III, IV, and V

May/June 2007

5. Which of the following statements correctly differentiates the relative importance of financial ratios when appraising term loans versus working capital loans?

- (A) The Debt-Equity Ratio is the sole determinant for working capital loans, while the current ratio is the only critical factor for term loans.
- (B) Liquidity ratios assume greater importance for working capital loans, whereas the Net Profit Margin evaluates long-term project sustainability.
- (C) The Gross Profit Margin evaluates term loan viability, while the Debt Service Coverage Ratio (DSCR) is irrelevant for evaluating bank risk.
- (D) DSCR is vital for evaluating term loan repayment, while liquidity ratios are primary for assessing working capital requirements.

longer responsible for evaluating the credit of the correspondent bank.

- 78.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

When a bank buys or discounts a bill, the seller receives immediate funds, and the receivable is removed from their main assets and moved to the bank's books. However, unless the transaction is without recourse, the seller remains liable if the buyer fails to pay. Therefore, they must record a contingent liability in their records to reflect this potential future obligation.

- 79.** (D) No, as the income from factoring is below the required 75 per cent minimum threshold

To qualify for bank finance, a factoring company must meet specific regulatory thresholds. Both its factoring assets and its income derived from factoring activities must be at least seventy-five per cent of the total. In this case, while the assets meet the criteria, the income is only sixty per cent, which falls below the required minimum. Therefore, the bank cannot extend financial assistance.

- 80.** (C) I and III only

Banks must ensure that Letters of Credit and bill discounting activities are based on genuine trade transactions for their own constituents. They should also have a Board-approved policy covering the entire bill handling process. However, banks are generally discouraged from providing fund-based facilities to non-constituent borrowers who are part of a consortium or multiple banking arrangement without proper coordination.

deferred payment guarantees are not entirely forbidden under all circumstances.

- 52.** (C) Assertion (A) is true, but Reason (R) is false.

When using the holding norms method for new enterprises, banks estimate future turnover by looking at production capacity, market share, and raw material availability. This process is not simple and frequently leads to disagreements between the bank and the borrower regarding the realism of the projections. Therefore, while the method of estimation is correctly stated, the claim that it is simple is incorrect.

- 53.** (D) Assertion (A) is false, but Reason (R) is true.

Bank guarantees in favor of Government Departments use a standardized Model Form. Any changes to this form must be agreed upon by both the department and the bank to ensure fairness. However, correspondence regarding these guarantees is not exchanged directly with the President of India; it is handled through the relevant government officials or departments authorized to manage such contracts.

- 54.** (C) Capital invested in fixed plant and machinery

Working capital is funded through various sources, including the enterprise's own long-term funds, credit from suppliers, and short-term bank finance. Other current liabilities like unpaid salaries also provide temporary funding. However, capital that is already invested in fixed assets like plant and machinery is considered long-term capital and cannot be used to meet the immediate operational needs of the business.

- 55.** (B) It facilitates supplier credit by guaranteeing payment, thus reducing the purchaser's fund-based needs

When a bank co-accepts a bill, it provides a guarantee to the supplier that the payment will be made. This assurance makes the supplier more willing to provide credit to the purchaser. By using this credit, the purchaser can manage their operations without needing immediate fund-based loans from the bank, thereby optimizing their overall working capital and reducing interest costs.

- 56.** (A) 25 per cent of the working capital gap
The First Method of Lending, established based on historical committee recommendations, required the borrower to contribute a minimum of twenty-five per cent of the working capital gap from their own long-term sources. The working capital gap is the difference between current assets and current liabilities other than bank finance. This ensures that the promoter maintains a reasonable stake in funding the business.

- 57.** (A) Guarantee X is a Performance Guarantee; Guarantee Y is a Financial Guarantee.

A performance guarantee, like the one for bridge construction, ensures that a specific task or contract is completed according to agreed standards and timelines. In contrast, a financial guarantee, such as one provided to customs, serves as a substitute for a monetary deposit. It guarantees the payment of financial dues if the client fails to meet their regulatory or contractual obligations.

- 58.** (B) P-3, Q-2, R-4, S-1

The first method of lending requires twenty-five per cent of the working capital gap as margin. The second method requires twenty-five per cent of total current assets. The third method involves core assets plus twenty-five per cent of the remaining current assets. The Nayak Committee's projected turnover method mandates a minimum contribution of five per cent of the annual turnover from the promoters.

- 59.** (A) Minimum total margin of Rs. 50 lakh; minimum cash margin of Rs. 25 lakh.

For bank guarantees issued on behalf of stock brokers to stock exchanges, specific margin rules apply to mitigate market risks. The bank must obtain a total margin of at least fifty per cent. Half of this total margin, which is twenty-five per cent of the total guarantee amount, must be held as a cash margin to ensure immediate liquidity if needed.

- 60.** (C) Rs. 125 lakh

Under the second method of lending, the maximum permissible bank finance is seventy-five per cent of total current assets minus current liabilities excluding bank finance. In this case, seventy-five per cent of three

Oct/Nov 2018

6. Match the specific infrastructure project in List I with its overarching sector category in List II.

List I: (Infrastructure Project)

P. Liquefied Natural Gas (LNG) storage facility

Q. Water supply pipelines

R. Terminal markets

S. Inland Waterways

List II: (Sector Category)

1. Transport

2. Water & Sanitation

3. Social and Commercial Infrastructure

4. Energy

(A) P-2, Q-4, R-1, S-3

(B) P-4, Q-3, R-2, S-1

(C) P-4, Q-2, R-3, S-1

(D) P-1, Q-2, R-4, S-3

May/June 2023

7. A salaried individual, an agricultural farmer, and a large industrial enterprise all approach a bank for term loans. Based on the respective cash flow patterns, which combination represents the most appropriate repayment structures for these three borrowers respectively?

(A) Bullet repayment structures, Equated Monthly Instalments, and Quarterly repayment schedules.

(B) Equated Monthly Instalments, Cropping pattern repayment, and Monthly/quarterly repayments.

(C) Monthly/quarterly repayment schedules, Bullet repayment structures, and Cropping pattern repayments.

(D) Cropping pattern repayments, Equated Monthly Instalments, and Bullet repayment structures.

Oct/Nov 2009

8. In order to meet financial requirements of infrastructure projects, banks may extend credit facilities through various ways. Identify the correct pair representing a specific arrangement and its corresponding support institution.

(A) Take-out financing — IDFC or other Financial Institutions.

(B) Standby credit facility — State Government guarantee bodies.

(C) Partial Credit Enhancement — Securities and Exchange Board.

(D) Promoter's equity funding — Central Bank direct assistance.

May/June 2016

9. What is the fundamental nature of the exposure assumed by a bank when it issues a Deferred Payment Guarantee (DPG) for the purchase of fixed assets?

(A) It is non-fund based, but defaults convert it to a fund-based exposure until the bank recovers the amount paid.

(B) It is a fund-based exposure from the outset, carrying significantly lower risks than a standard long-term loan.

(C) It is an off-balance sheet exposure that strictly transfers all default risks to the supplier of the machinery.

(D) It is a conditional liquidity support mechanism that does not impact the bank's actual capital adequacy ratios.

Oct/Nov 2023

10. Regulatory guidelines suggest that promoter's contribution towards the equity capital of a company should normally come from their own resources. However, banks may finance the acquisition of promoter's shares in an existing company implementing an infrastructure project, provided certain conditions are met. Which of the following is NOT one of those conditions?

(A) The bank finance would be only for acquisition of shares of existing companies providing infrastructure facilities.

(B) The tenor of the bank loans must strictly be up to ten years without any exceptions.

(C) The company financed and the promoters/directors of such companies should not be a defaulter to banks/FIs.

(D) Banks should ensure maintenance of stipulated margins at all times.

May/June 2022

11. Identify the correct pair representing the nature of the requirement and the corresponding appropriate appraisal approach.

(A) Purchasing minor machinery with no major impact on business — Verifying satisfactory projected DSCR for 2-3 years.

(B) Acquiring a few machineries with no major

NODIA

(D) P-3, Q-1, R-4, S-2

Oct/Nov 2016

36. Which statement correctly identifies the regulatory stance on how cost overruns caused by fluctuations in the value of the Indian Rupee against other currencies are treated?

- (A) They are entirely exempt from any regulatory ceilings and can be funded limitlessly by the lending banks.
- (B) They are excluded from the 10 per cent ceiling of the original project cost limit due to external factors.
- (C) They must be funded exclusively through a Partial Credit Enhancement facility or a government guarantee.
- (D) They are included within the 10 per cent original project cost ceiling applicable to all cost overruns.

May/June 2018

37. To ensure that the servicing of debt is a strainless experience for the business, specific ideal benchmarks are considered for the Debt Service Coverage Ratio (DSCR). Which of the following correctly represents the ideal levels?

- (A) Ideal Gross DSCR is 1.00-1.25 and Net DSCR is ~1.5
- (B) Ideal Gross DSCR is 1.25-1.50 and Net DSCR is ~1.75
- (C) Ideal Gross DSCR is 1.50-1.75 and Net DSCR is ~2
- (D) Ideal Gross DSCR is 2.00-2.50 and Net DSCR is ~3

Oct/Nov 2022

38. The “Social and Commercial Infrastructure” category includes specific thresholds for certain projects to qualify as infrastructure lending. Consider the following:

- I. Three-star or higher category classified hotels located outside cities with a population of more than 1 million
- II. Hospitals (capital stock)
- III. Hotels with a project cost of more than Rs. 200 crores each
- IV. Convention Centres with a project cost of more than Rs. 300 crores each
- V. Education Institutions (capital stock)

Which of the above project types and thresholds correctly qualify as infrastructure lending?

- (A) I, II, III, IV, and V
- (B) I, III, IV, and V only
- (C) II, III, IV, and V only
- (D) I, II, IV, and V only

May/June 2005

39. Which of the following statements correctly defines the Internal Rate of Return (IRR)?

- (A) The rate of return calculated by dividing the total projected net profit by the initial capital investment amount.
- (B) The discount rate making the net present value (NPV) of all future cash flows equal zero in a DCF analysis.
- (C) The benchmark interest rate set by the Central Bank specifically for infrastructure and long-term project lending.
- (D) The sum of cash accruals and interest on term loans divided by the principal instalments due during the period.

Oct/Nov 2010

40. A non-infrastructure project originally stipulated to cost Rs. 500 crores faces a delay. The bank considers funding the cost overrun. What is the maximum permitted time extension from the original Date of Commencement of Commercial Operations (DCCO) and the maximum funding allowed for non-IDC cost overruns to avoid a ‘restructured asset’ classification?

- (A) Up to one year extension; maximum Rs. 50 crores non-IDC funding
- (B) Up to two years extension; maximum Rs. 50 crores non-IDC funding
- (C) Up to two years extension; maximum Rs. 100 crores non-IDC funding
- (D) Up to one year extension; maximum Rs. 100 crores non-IDC funding

May/June 2019

41. Projections in project appraisal are based on various assumptions that need not always hold good. Which tool is most appropriate to test what impact an adverse movement of input cost or output price will create on BEP, DSCR, and IRR?

- (A) Sensitivity Analysis
- (B) Fixed Assets Coverage Ratio Assessment
- (C) Profitability Estimation
- (D) Debt-Equity Balancing

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- (C) Interviewing the Borrower
- (D) Pre-sanction Inspection/Survey

Oct/Nov 2017

18. Under the Prudential Requirements for financing infrastructure projects, which of the following statements is incorrect?
- (A) Banks are required to be guided by the Prudential Guidelines on Capital Adequacy and Market Discipline.
 - (B) Long-term financing of infrastructure projects may lead to asset-liability mismatches.
 - (C) Banks are strictly prohibited from syndication arrangements for funding infrastructure projects to avoid risk dilution.
 - (D) Banks need to exercise due vigil on their asset-liability position to ensure they do not run into liquidity mismatches.

May/June 2006

19. An analyst is evaluating a project manufacturing personal protectives and immunity medicines during a flattened or down-curve in the overall economy. How should the analyst view the economic viability of this project?
- (A) It is an exception where the specific sector environment is favorable despite the wider economic down-curve.
 - (B) It should be rejected because a flattened macro-economy is generally not an ideal time to start most businesses.
 - (C) It must be deferred until the broader economy returns to an up-curve mode to ensure sufficient consumer demand.
 - (D) It requires immediate scaling down of production estimates due to the expected poor purchasing power in the economy.

Oct/Nov 2008

20. Timely and adequate availability of credit is a pre-requisite for the successful implementation of infrastructure projects. What administrative mechanism is most appropriate to ensure delays are minimized when multiple institutions are involved in financing?
- (A) Requiring every participating bank to conduct a wholly independent on-site technical survey before disbursement.
 - (B) Transferring all appraisal responsibilities and risk assessments exclusively to the

Central Bank's department.

- (C) Delaying loan approval until the project has successfully generated its first positive cash flow from operations.
- (D) Broadly accepting technical parameters from leading public financial institutions to avoid multiple appraisals.

May/June 2024

21. Which of the following is NOT an aspect studied under Financial Appraisal?
- (A) Detailed analysis of past working results and historical performance in the case of existing concerns.
 - (B) Comprehensive Balance Sheet analysis and ratio analysis to determine the liquidity and solvency of the firm.
 - (C) Critical assessment of the sources of funds and the subsequent uses of funds for the proposed project.
 - (D) Assessing whether the overall technological background is of sunrise, stable, or sun-setting ambience.

Oct/Nov 2021

22. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R).
- Assertion (A): Under the Liquidity Support scheme from IDFC, the credit risk on the project will be taken by IDFC and not by the bank concerned.
- Reason (R): IDFC commits at the point of sanction to refinance the entire outstanding loan to the bank after an agreed period, and charges an interest rate depending on its risk perception of the bank.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

May/June 2013

23. After estimating the Cost of the Project (CoP), the source from which the financial

NODIA

- I. Banks are permitted to issue guarantees favouring other lending institutions in respect of infrastructure projects.
- II. A condition for issuing such a guarantee is that the bank must take a funded share in the project at least to the extent of 5 per cent of the project cost.

Which of the following combinations is correct?

- (A) Only Statement I is correct
- (B) Only Statement II is correct
- (C) Both Statements I and II are correct
- (D) Neither Statement I nor II is correct

Oct/Nov 2012

50. Consider the following statements regarding the differences between term loan appraisal and project appraisal:

- I. In project finance, all the financial needs of the enterprise, including working capital requirements, are appraised because the total requirement of long-term funds includes margin money for working capital.
- II. The basic principles of appraisal of a project and a standalone term loan are entirely different and rely on separate financial matrices.

Which of the following combinations is correct?

- (A) Only Statement I is correct
- (B) Only Statement II is correct
- (C) Both Statements I and II are correct
- (D) Neither Statement I nor II is correct

May/June 2023

51. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R).

Assertion (A): Banks can extend finance to a 'specialised' entity exclusively set up for taking over and turning around troubled infrastructure companies.

Reason (R): The lenders must ensure that these entities are adequately capitalised, and the debt-equity ratio for such an entity is not more than 3:1.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is

false.

- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2015

52. Read the following statements regarding Prima Facie Acceptability Appraisal:

- I. Fits into regulatory prescriptions of RBI
- II. Compliance with the law of the land
- III. Acceptable and fair banking risk as per loan policy guidelines

Which of the above statements are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

May/June 2005

53. When extending finance for the acquisition of a promoter's shares in an existing infrastructure company, which of the following represents the most appropriate primary security arrangement?

- (A) Finance against the security of the shares of the company being acquired, supplemented by state guarantees.
- (B) Finance must be secured exclusively by a Partial Credit Enhancement (PCE) bond issued by the borrowing entity.
- (C) Finance requires no primary security if the promoter's debt-equity ratio is less than 3:1 in all projects.
- (D) Finance against assets of the borrowing or acquired company, and not against the shares being acquired.

Oct/Nov 2021

54. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R).

Assertion (A): A project which may be considered technically feasible, economically viable, and financially sound may still run into difficulties.

Reason (R): The project may not be backed by financially capable and managerially competent persons who will be funding and manning the enterprise.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are

makes the business as a whole profit-generating immediately upon sale.

Reason (R): The Selling Price should ideally be more than Total Cost, loading a profit element into the first unit.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2011

30. Internationally, project finance lenders sanction a specific facility at the time of initial financial closure to fund anticipated but uncertain excess costs, which is disbursed only when such an event occurs. What is this facility called?

- (A) Deferred Payment Guarantee
- (B) Revolving Liquidity Support
- (C) Standby Credit Facility
- (D) Subordinated Working Capital

May/June 2009

31. A manufacturing unit produces a product with a Selling Price (SP) of Rs. 25 per unit. The Variable Cost (VC) is Rs. 15 per unit. What is the Contribution per unit?
- (A) Rs. 40
 - (B) Rs. 15
 - (C) Rs. 25
 - (D) Rs. 10

Oct/Nov 2019

32. An infrastructure project faces a delay, and the initial financial closure did not envisage financing of cost overruns. The banks intend to fund the cost overrun arising from the extension of the Date of Commencement of Commercial Operations (DCCO). Up to how many years from the original DCCO can this extension occur for an infrastructure project without treating the loans as a 'restructured asset'?
- (A) Upto one year
 - (B) Upto two years
 - (C) Upto three years

- (D) Upto five years

May/June 2025

33. An enterprise does not have per unit cost data but has the following overall figures: Fixed Cost = Rs. 50,000, Total Variable Cost = Rs. 1,50,000, and Total Sales Revenue = Rs. 2,50,000 at a certain level of capacity utilisation. Using the standard formula, calculate the Break Even Level of Sales Volume.
- (A) Rs. 83,333
 - (B) Rs. 1,25,000
 - (C) Rs. 1,50,000
 - (D) Rs. 1,75,000

Oct/Nov 2007

34. Where initial financial closure does not envisage financing of cost overruns, banks may fund them without treating the asset as restructured, provided certain conditions are met. Which of the following is NOT one of those conditions?

- (A) The Debt Equity Ratio agreed at initial closure must improve in favor of the promoters.
- (B) Disbursement of funds for cost overruns should start only after Sponsors/Promoters bring in their share.
- (C) All other terms and conditions of the loan should remain unchanged or be enhanced in favour of lenders.
- (D) The revised Debt Service Coverage Ratio (DSCR) should be acceptable to the lenders and the lead bank.

May/June 2014

35. Match the Break Even Point (BEP) capacity utilisation in List I with its considered risk level in List II.

List I: (BEP Capacity Utilisation)

- P. BEP $\leq$ 50%
- Q. BEP 51–65%
- R. BEP 66–70%
- S. BEP 71–85%

List II: (Risk Level)

- 1. Low risk
- 2. Very healthy
- 3. High risk
- 4. Medium risk
- (A) P-2, Q-1, R-4, S-3
- (B) P-1, Q-2, R-4, S-3
- (C) P-2, Q-4, R-1, S-3

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requirement will be met must be identified.
Consider the following items:

- I. Share Capital (existing and infusion)
- II. Internal Accruals during construction
- III. Capital subsidy
- IV. Term Loans
- V. Contingencies

Which of the above items are included under Means of Finance [MoF]?

- (A) II, III, IV, and V only
- (B) I, II, III, and IV only
- (C) I, III, IV, and V only
- (D) I, II, IV, and V only

Oct/Nov 2015

24. Central Bank guidelines limit the aggregate Partial Credit Enhancement (PCE) provided by all banks for a given bond issue. What is this aggregate limit in relation to the bond issue size?
- (A) Limited to 20 per cent
 - (B) Limited to 40 per cent
 - (C) Limited to 50 per cent
 - (D) Limited to 100 per cent

May/June 2020

25. Match the items in List I with their appropriate classification in List II.

List I: (Item)

- P. Land, site development
- Q. Reserves and Surpluses
- R. Deferred Payment Guarantee
- S. Vehicles and equipment

List II: (Classification)

- 1. Means of Finance
- 2. Cost of the Project
- 3. Means of Finance
- 4. Cost of the Project
- (A) P-2, Q-1, R-3, S-4
- (B) P-1, Q-2, R-4, S-3
- (C) P-4, Q-3, R-1, S-2
- (D) P-3, Q-4, R-2, S-1

Oct/Nov 2005

26. Which of the following statements is correct regarding the operational nature of the contingent facility in a Partial Credit Enhancement (PCE)?
- (A) It must strictly be provided as a term loan with fixed equated monthly instalments.
 - (B) It may, at the discretion of the bank, be made available as a revolving facility.

(C) It must be recorded as a direct deduction from the promoter's primary equity capital.

(D) It is revocable by the bank at any time before the final maturity date of the bond.

May/June 2017

27. In Commercial Appraisal, what is the precise definition of the point where there is no net loss or gain, and the unit has "broken even"?
- (A) It is the point where Total Costs equal Sales value.
 - (B) It is the point where Variable Costs exceed Fixed Costs by the margin of profit.
 - (C) It is the point where the Debt Service Coverage Ratio equals 1.
 - (D) It is the point where the Internal Rate of Return matches the weighted average cost of capital.

Oct/Nov 2024

28. To ensure robust management of PCE facilities, banks must adhere to structural and procedural guidelines. Read the following:

I. Project assets created out of the bond issue must be ring-fenced through an escrow account mechanism.

II. The escrow mechanism must be administered under a bond trustee arrangement.

III. Banks must solely rely on the ratings of external agencies and avoid internal credit analysis.

IV. The project should have a robust and viable financial structure even before the credit enhancement is taken into account.

V. Banks must honour the full PCE commitment made ab-initio irrespective of the asset classification of the borrower's credit facilities.

Which of the above represent the correct guidelines for managing PCE facilities?

- (A) I, II, III, and V only
- (B) II, III, IV, and V only
- (C) I, II, IV, and V only
- (D) I, III, IV, and V only

May/June 2010

29. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R).
Assertion (A): The first unit of production

Oct/Nov 2006

42. In exceptional cases where an enterprise is unable to bring in the required amount of Net Working Capital (NWC) to maintain the stipulated current ratio, what type of financing may banks provide to address the resulting liquidity crunch?
- (A) Long Term Working Capital Finance (LTWCF)
 (B) Working Capital Term Loan (WCTL)
 (C) Deferred Payment Guarantee (DPG)
 (D) Temporary Overdraft Facility (TOF)

May/June 2013

43. According to the Gazette Notifications issued by the Ministry of Finance, Government of India, what is the date of the Notification under which the presently qualifying infrastructure sectors are defined for 'infrastructure lending'?
- (A) 8th April, 2016
 (B) 31st March, 2015
 (C) 24th September, 2015
 (D) 28th August, 1998

Oct/Nov 2022

44. Why are term loans considered long-term assets for the purpose of matching a bank's assets and liabilities, whereas working capital loans are considered short-term assets?
- (A) Term loans are disbursed in multiple tranches for capital expenditure, whereas working capital loans are disbursed as a single bullet payment for operations.
 (B) Term loans are strictly regulated by the central bank's statutory requirements, whereas working capital loans operate under internal bank policies and guidelines.
 (C) Term loans follow a fixed repayment schedule, whereas working capital is sanctioned for one year and payable on demand.
 (D) Term loans require tangible immovable collateral like land and buildings, whereas working capital loans are secured only by current assets and book debts.

May/June 2024

45. Under the "Transport" category of infrastructure sectors, which specific element is explicitly excluded from Urban Public Transport?
- (A) Bridges used for public transport.

- (B) Rolling stock used in urban road transport.
 (C) Viaducts for urban rail systems.
 (D) Tunnels for metropolitan roads.

Oct/Nov 2011

46. Which of the following statements regarding the repayment schedule of term loans is incorrect?
- (A) Each term loan has its own peculiar repayment schedule depending upon the cash surplus of the borrower.
 (B) In some cases, the entire repayment may be stipulated in one instalment only, called bullet repayment.
 (C) There is a uniform repayment schedule mandated for all term loans across industrial sectors.
 (D) Repayment of principal and interest for a farmer may coincide with the cropping pattern.

May/June 2016

47. While the basic principles of appraisal of an infrastructure project are the same as a normal project appraisal, infrastructure projects involve some distinct features. Which of the following is NOT one of those distinct features?
- (A) Exceptionally long project implementation and construction periods.
 (B) Significantly long gestation and extended payback periods for debt.
 (C) High debt-equity ratio compared to normal manufacturing projects.
 (D) Predominance of short-term working capital over long-term funding.

Oct/Nov 2020

48. What is the specific banking term used when the purchaser of fixed assets does not pay the supplier immediately but pays according to an agreed repayment schedule, and the bank formally guarantees this repayment?
- (A) Letter of Credit (LC)
 (B) Working Capital Term Loan (WCTL)
 (C) Standby Credit Facility (SCF)
 (D) Deferred Payment Guarantee (DPG)

May/June 2008

49. Consider the following statements regarding Inter-institutional Guarantees for infrastructure projects:

NODIA

- I. Licensing/registration requirements
 - II. Availability of basic infrastructure
 - III. Selection of technology/suitable technical process
 - IV. Offtake of products
- Which of the above aspects are included in technical appraisal?
- (A) I, II, and III only
 - (B) II, III, and IV only
 - (C) I, III, and IV only
 - (D) I, II, III, and IV

May/June 2017

61. What mechanism is specifically designed to enable banks to avoid asset-liability maturity mismatches that may arise out of extending long tenor loans to infrastructure projects, by transferring the outstandings to another financial institution on a pre-determined basis?
- (A) Working Capital Term Loan (WCTL)
 - (B) Take-out Financing Arrangement
 - (C) Partial Credit Enhancement (PCE)
 - (D) Standby Credit Facility

Oct/Nov 2019

62. Match the type of appraisal in List I with its primary focus area in List II.
- List I: (Appraisal Type)
- P. Environmental Appraisal
 - Q. Market Appraisal
 - R. Commercial Appraisal
 - S. Prima Facie Acceptability Appraisal
- List II: (Focus Area)
- 1. Measures the business's capability to generate enough profit to service its debts in relation to time and quantity.
 - 2. Ensures the proposed industry fits into regulatory prescriptions.
 - 3. Checks whether there is adequate leg-room to step in and withstand competitors.
 - 4. Requires obtaining clearances from the state pollution control board.
- (A) P-1, Q-2, R-4, S-3
 - (B) P-4, Q-1, R-3, S-2
 - (C) P-4, Q-3, R-1, S-2
 - (D) P-2, Q-4, R-1, S-3

May/June 2022

63. Read the following statements regarding Partial Credit Enhancement (PCE) provided by banks to Corporate Bonds:

- I. Banks are allowed to offer PCE only in the form of a non-funded irrevocable contingent line of credit.
- II. The objective is to enhance the credit rating of the bonds issued to enable corporates to access funds from the bond market on better terms.
- III. Banks can provide PCE by way of a traditional financial guarantee.

Which of the above statements reflect the core rules surrounding Partial Credit Enhancement (PCE)?

- (A) II and III only
- (B) I and III only
- (C) I, II, and III
- (D) I and II only

Oct/Nov 2013

64. Identify the incorrect pair where the item is mismatched with its respective category (Cost of the Project vs. Means of Finance).
- (A) Preliminary and Pre-operative Exps — Cost of the Project [CoP]
 - (B) Working Capital Margin — Cost of the Project [CoP]
 - (C) Subordinated debts — Means of Finance [MoF]
 - (D) Interest During Construction — Means of Finance [MoF]

May/June 2010

65. A corporate SPV plans a bond issue of Rs. 500 crores with a pre-enhanced rating of 'BB'. Bank A wishes to provide a Partial Credit Enhancement (PCE) of Rs. 100 crores (20% of the issue). Based on regulatory guidelines, can Bank A offer this PCE?
- (A) Yes, because the 20% individual bank limit is met and the project is in a qualifying infrastructure sector.
 - (B) No, because banks may offer PCE only for bonds with a pre-enhanced rating of BBB minus or better.
 - (C) Yes, because the aggregate PCE is well within the 50% limit and the bank has sufficient capital adequacy.
 - (D) No, because PCE must always be provided as a fully funded credit facility rather than a contingent line.

true, but Reason (R) is not the correct explanation of Assertion (A).

- (C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2018

55. A bank has a net worth of Rs. 10,000 crores as of 31 March of the previous year. It wishes to finance the acquisition of equity shares by promoters. Under the regulatory framework, what is the maximum aggregate exposure ceiling to the capital markets (both fund based and non-fund based) within which this financing must remain?
(A) Rs. 2,000 crores
(B) Rs. 4,000 crores
(C) Rs. 5,000 crores
(D) Rs. 7,500 crores

Oct/Nov 2014

56. The pre-sanction credit process aimed at gaining confidence in the borrower typically involves a sequence of activities. Which sequence logically aligns with the steps involved?
(A) Pre-sanction Inspection/Survey followed by Compliance of KYC norms and concluding with Interviewing the prospective Borrower.
(B) Compliance of KYC norms followed by Pre-sanction Inspection/Survey and concluding with Interviewing the prospective Borrower.
(C) Interviewing the Borrower followed by Pre-sanction Inspection/Survey and concluding with Compliance of statutory KYC norms.
(D) A collective process of these actions to build confidence, though no strict sequential mandate is explicitly codified.

May/June 2009

57. Financing infrastructure projects through Special Purpose Vehicles (SPVs) calls for special appraisal skills on the part of lending agencies. Consider the following components:
I. Identification of various project risks
II. Evaluation of risk mitigation through appraisal of project contracts
III. Evaluation of creditworthiness of the

contracting entities and their abilities to fulfill contractual obligations

Which of the above identify crucial appraisal components for SPVs?

- (A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2025

58. Which of the following statements correctly describes Economic Appraisal?
(A) It evaluates the technical machinery specifications and engineering viability of the proposed industrial project.
(B) It evaluates the macro-economy to determine if incremental production will be accepted by the wider market.
(C) It exclusively calculates the Net Present Value and Internal Rate of Return of the proposed financial investments.
(D) It restricts itself to assessing whether the geographical location has adequate water supply and ambient air quality.

May/June 2011

59. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R).
Assertion (A): Banks must exercise due vigil on their asset-liability position when lending to infrastructure projects.
Reason (R): Long-term financing of infrastructure projects may lead to asset-liability mismatches, particularly when such financing is not in conformity with the maturity profile of a bank's liabilities.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2007

60. The technical appraisal of a credit proposal involves a detailed study of several aspects. Read the following statements:

impact on business volume — Conducting detailed techno-economic feasibility and IRR.

- (C) Setting up a greenfield manufacturing plant with high capital outlay — Examining only the projected DSCR for the next 2-3 years.
- (D) Providing an educational loan to an individual for higher studies — Comprehensive calculation of Margin of Safety and Break Even Point.

Oct/Nov 2020

12. A bank is considering financing an entity to acquire a promoter's stake in an infrastructure company. The total finance required for acquiring the promoter's stake is Rs. 100 crores. According to the regulatory guidelines ensuring the borrower has a substantial stake, what is the maximum amount the bank can restrict its finance to?
- (A) Rs. 30 crores
(B) Rs. 40 crores
(C) Rs. 50 crores
(D) Rs. 75 crores

May/June 2011

13. Which of the following is considered the most vital input for the success of a business enterprise during the credit appraisal process, often referred to as evaluating "the man behind the project"?
- (A) Technical Appraisal
(B) Management Appraisal
(C) Financial Appraisal
(D) Commercial Appraisal

Oct/Nov 2012

14. Read the following conditions regarding banks financing the acquisition of equity shares by promoters for infrastructure projects:
- I. The financing would be subject to compliance with the statutory requirements under Section 19(2) of the Banking Regulation Act, 1949.
- II. The proposal for bank finance should have the approval of the Board.
- III. The banks' financing of this acquisition should be within the regulatory ceiling of 40 per cent of their net worth as on 31 March of the previous year for aggregate capital market exposure.

IV. The shares of the borrowing company being acquired can be accepted as additional security, provided they are marketable.

Which of the above conditions apply to banks financing the acquisition of equity shares by promoters?

- (A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

May/June 2015

15. Confidence in the borrower during Management Appraisal is generally derived from the 5 C's. Read the following factors:

- I. Character
II. Capacity
III. Capital
IV. Collateral
V. Conditions

Which of the above are part of the standard 5 C's of credit?

- (A) I, II, III, and V only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2013

16. Consider the following statements regarding the appraisal of infrastructure projects undertaken by Government-owned entities:

- I. State government guarantees may be taken as a complete substitute for satisfactory credit appraisal.
- II. Appraisal requirements should not be diluted on the basis of any reported arrangement for regular standing instructions for servicing the loans.

Which of the following combinations is correct?

- (A) Only Statement I is correct
(B) Only Statement II is correct
(C) Both Statements I and II are correct
(D) Neither Statement I nor II is correct

May/June 2008

17. The pre-sanction credit process, designed to evaluate the reliability, responsibility, and resources of the borrower, involves all of the following EXCEPT:

- (A) Compliance of Know Your Customer (KYC) norms
(B) Sanctioning of standby credit facility

Oct/Nov 2018

- 66.** For estimating the cost of production and profitability correctly, several factors must be considered. Read the following factors:
- I. Installed capacity
 - II. Number of shifts per day and number of working days
 - III. Capacity build up/utilisation
 - IV. Quantity and price of input and output
- Which of the above factors should be considered for estimating production cost and profitability?
- (A) I, II, and IV only
 - (B) II, III, and IV only
 - (C) I, III, and IV only
 - (D) I, II, III, and IV

May/June 2019

- 67.** Consider the following statements regarding Partial Credit Enhancement (PCE) facilities:
- I. In the event of project failure or bankruptcy, the PCE must rank above the claims of the enhanced bond holders in repayment priority.
 - II. PCE facilities to the extent drawn should be treated as an advance in the balance sheet, while undrawn facilities are reported under 'Contingent Liability – Others'.
- Which of the following combinations is correct?
- (A) Only Statement I is correct
 - (B) Only Statement II is correct
 - (C) Both Statements I and II are correct
 - (D) Neither Statement I nor II is correct

Oct/Nov 2006

- 68.** Which of the following correctly differentiates Fixed Cost from Variable Cost within the context of Break Even Analysis?
- (A) Fixed Cost fluctuates with the number of shifts per day, while Variable Cost remains static regardless of operations.
 - (B) Fixed Cost includes the cost of raw materials, whereas Variable Cost includes machinery depreciation and rent.
 - (C) Fixed Cost can be granulised into cost per unit of production at zero level, whereas Variable Cost excludes labor.
 - (D) Fixed Cost is inelastic regardless of production levels, while Variable Cost varies in proportion to production.

May/June 2020

- 69.** While providing PCE, banks are required to build up a system of regular tracking of the financial position of the issuer. What is the most appropriate primary objective of this tracking system?
- (A) To decide whether to retroactively revoke the PCE commitment.
 - (B) To determine the exact amount of dividend to be declared by the borrowing SPV.
 - (C) To automatically convert the bond issue into equity shares upon the first sign of distress.
 - (D) To ensure continuous monitoring of the rating migration of the issuers/issues.

Oct/Nov 2005

- 70.** According to the mechanics of Break Even Analysis, the excess of Sales Price over Variable Cost is termed as Contribution. In what sequential priority is this Contribution utilised?
- (A) First towards generation of Profit, and then towards recovery of Fixed Cost.
 - (B) First towards recovery of Variable Cost, and then towards generation of Profit.
 - (C) First towards recovery of Fixed Cost, and then to generation of Profit.
 - (D) First towards payment of taxes, and then towards recovery of Fixed Cost.

May/June 2025

- 71.** When a 'standby credit facility' is utilized to fund cost overruns, how does it rank in relation to the base project loans?
- (A) It ranks subordinate to the base project loans.
 - (B) It ranks pari passu with the base project loans.
 - (C) It ranks senior to all other debt and equity.
 - (D) It ranks equivalently with the claims of enhanced bond holders only.

Oct/Nov 2009

- 72.** An industrial unit has an installed capacity to produce 5,000 units per annum. The Fixed Cost is Rs. 10,000 per annum, Variable Cost is Rs. 12 per unit, and Selling Price is Rs. 20 per unit. Calculate the Break Even Point (BEP) in units.
- (A) 833 units
 - (B) 1,000 units

a credit enhancement tool but cannot replace a comprehensive evaluation of project viability. Regulatory guidelines explicitly state that appraisal standards must not be diluted based on repayment arrangements, ensuring that projects are funded based on their intrinsic financial and technical merits.

17. (B) Sanctioning of standby credit facility

The pre-sanction credit process focuses on assessing the borrower's reliability and the project's viability before funds are committed. This involves verifying identity through KYC norms, conducting interviews to understand management competence, and performing on-site inspections. Sanctioning a standby credit facility is part of the structuring and approval stage of financing, rather than a step in the initial evaluative due diligence process.

18. (C) Banks are strictly prohibited from syndication arrangements for funding infrastructure projects to avoid risk dilution.

Financing infrastructure projects requires careful adherence to prudential guidelines. Banks must manage asset-liability positions to prevent liquidity mismatches and follow capital adequacy standards. Contrary to the incorrect statement, syndication is actually a common and encouraged practice in infrastructure lending. It allows multiple lenders to share the substantial financial burden and diversify the risks associated with large-scale, long-term development projects.

19. (A) It is an exception where the specific sector environment is favorable despite the wider economic down-curve.

Economic viability usually aligns with macro-economic trends, but certain sectors may thrive even during a general downturn. Projects related to essential healthcare, personal protective equipment, and medicines can experience high demand regardless of the overall economy. In such cases, the analyst should recognize that the specific industry's tailwinds outweigh the negative impacts of a flattened or declining broader economic cycle.

20. (D) Broadly accepting technical parameters from leading public financial institutions to avoid multiple appraisals.

Timely implementation of infrastructure projects is crucial, especially when multiple lenders are involved. To minimize administrative delays, banks and financial institutions are encouraged to collaborate. By accepting the technical appraisal and parameters established by lead institutions, participating banks can avoid redundant surveys and assessments. This streamlined approach ensures faster processing of credit facilities and supports the efficient deployment of project funds.

21. (D) Assessing whether the overall technological background is of sunrise, stable, or sun-setting ambience.

Financial appraisal involves analyzing historical performance, balance sheets, and cash flows to determine a project's liquidity and solvency. It focuses on the sources and uses of funds. Assessing the technological landscape, such as whether a process is innovative or obsolete, is a core component of technical appraisal, rather than the quantitative evaluation performed during the financial analysis of a credit proposal.

22. (D) Assertion (A) is false, but Reason (R) is true.

Under the liquidity support scheme, IDFC commits to refinancing the bank's loan after an agreed period. While this provides a guaranteed exit for the bank, the bank continues to bear the credit risk of the project until the actual take-out occurs. IDFC's interest rate for the refinance facility is based on its risk perception of the bank, not the project itself.

23. (B) I, II, III, and IV only

Means of Finance refers to the various sources used to fund the total cost of a project. These typically include share capital, internal accruals generated during the construction phase, government capital subsidies, and term loans from financial institutions. Contingencies, however, are generally categorized as part of the Cost of Project rather than a source of funds, as they represent estimated buffer costs.

consider when appraising cost overruns?

- (A) II and III only
- (B) I and III only
- (C) I, II, and III
- (D) I and II only

Oct/Nov 2023

80. While the Internal Rate of Return (IRR) is a metric used in financial analysis, its relevance differs between the investor and the lender. Which perspective accurately reflects this dynamic?
- (A) IRR is primarily the concern of the lender to ensure loan recovery, while the investor focuses only on the DSCR.
 - (B) IRR strictly determines the interest rate the bank will charge the borrower for the duration of the term loan.
 - (C) IRR is entirely irrelevant to the lender and is excluded from the commercial appraisal and risk assessment.
 - (D) Investors view IRR for returns; lenders view it to ensure investor commitment and interest in the business.

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49. (C) Both Statements I and II are correct

Banks are permitted to issue inter-institutional guarantees to support infrastructure projects, where one bank guarantees the obligations of a borrower to another lending institution. To ensure the guaranteeing bank has a direct stake and interest in the project's success, regulatory conditions require that the bank must also take a funded share in the project, amounting to at least five per cent.

50. (A) Only Statement I is correct

Project finance appraisal is a comprehensive process that evaluates all financial needs of an enterprise, including long-term funds for fixed assets and margin money for working capital. While the basic principles of appraisal are similar for both standalone term loans and full project finance, the latter requires a more holistic view of the entity's total capital requirements and long-term operational sustainability.

51. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

Banks are allowed to finance specialized entities that take over troubled infrastructure projects to facilitate their turnaround. To ensure financial stability, these entities must be well-capitalized with a debt-equity ratio not exceeding three to one. While both statements are true and represent regulatory requirements, the specific debt-equity limit is a condition for financing rather than the underlying reason why banks provide support.

52. (D) I, II, and III

Before a detailed credit appraisal, a bank performs a prima facie acceptability assessment. This involves ensuring the proposal fits within regulatory prescriptions and complies with national laws. Additionally, the bank checks if the proposal represents an acceptable banking risk according to its own internal loan policy guidelines. Meeting these criteria is a prerequisite for moving forward with a more comprehensive project evaluation.

53. (D) Finance against assets of the borrowing or acquired company, and not against the shares being acquired.

When financing the acquisition of a promoter's shares in an infrastructure company, banks must prioritize tangible security. Regulatory guidelines state that such finance should be secured against the assets of the borrowing or acquired company. Banks are generally discouraged from relying solely on the shares being acquired as primary security, ensuring that the loan is backed by physical or operational project assets.

54. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Even projects with perfect technical, financial, and economic metrics can fail if they lack competent management. The human element is vital for navigating operational challenges and ensuring the project remains on track. Therefore, management appraisal is crucial to confirm that the enterprise is backed by individuals with the necessary financial capacity and professional expertise to manage and fund the project effectively.

55. (B) Rs. 4,000 crores

To limit systemic risk, banks are subject to an aggregate capital market exposure ceiling. This ceiling is currently set at forty per cent of the bank's net worth as of the end of the previous financial year. For a bank with a net worth of ten thousand crore rupees, the maximum combined fund-based and non-fund based exposure to capital markets is four thousand crores.

56. (D) A collective process of these actions to build confidence, though no strict sequential mandate is explicitly codified.

The pre-sanction credit process consists of several essential activities designed to evaluate a borrower's character and capacity. This includes conducting interviews, verifying identity through KYC norms, and performing on-site inspections. While all these steps are necessary to build the bank's confidence in the borrower, there is no rigid, legally mandated

8. (A) Take-out financing — IDFC or other Financial Institutions.
Infrastructure projects often require specialized financial arrangements to manage long-term risks. Take-out financing is a mechanism where institutions like IDFC or other financial entities agree to take over a bank's loan after a certain period. This helps banks manage liquidity and asset-liability mismatches. Other options, like government guarantees or specific central bank assistance, do not represent these standard arrangements.
9. (A) It is non-fund based, but defaults convert it to a fund-based exposure until the bank recovers the amount paid.
A Deferred Payment Guarantee is initially a non-fund based facility where the bank provides a guarantee to a supplier on behalf of the buyer. The bank does not outlay funds immediately. However, if the borrower defaults on an instalment, the bank must pay the supplier, thereby converting the contingent liability into a fund-based exposure until the borrower repays.
10. (B) The tenor of the bank loans must strictly be up to ten years without any exceptions.
While banks can finance promoters' equity for infrastructure projects, specific conditions apply to ensure financial prudence. These include ensuring the borrower and promoters are not defaulters, maintaining stipulated margins, and adhering to statutory requirements. However, regulatory guidelines do not mandate a strict ten-year maximum tenor without exceptions, as loan terms are generally determined by project requirements and bank policies.
11. (A) Purchasing minor machinery with no major impact on business — Verifying satisfactory projected DSCR for 2-3 years.
The intensity of credit appraisal depends on the complexity and impact of the project. For minor machinery acquisitions that do not significantly alter business operations, a simplified appraisal focusing on the projected Debt Service Coverage Ratio for a short period is sufficient. Complex greenfield projects or educational loans require different, more specialized evaluation methods tailored to their specific risks and cash flows.
12. (C) Rs. 50 crores
Regulatory guidelines regarding bank financing for the acquisition of a promoter's stake in existing infrastructure companies emphasize that the borrower must maintain a substantial financial interest. To ensure this commitment, banks are typically restricted to financing no more than fifty per cent of the total cost of acquiring such a stake. In this case, for a hundred crore requirement, fifty crores is maximum.
13. (B) Management Appraisal
Management appraisal is the most critical component of the credit evaluation process as it assesses the competence, integrity, and experience of the people running the project. Even a technically and financially sound project can fail without effective leadership. Evaluating the "man behind the project" ensures that the borrower has the capacity and character to navigate challenges and ensure business success.
14. (D) I, II, III, and IV
Financing the acquisition of equity shares by promoters for infrastructure projects involves several regulatory and internal safeguards. These include complying with Section 19(2) of the Banking Regulation Act, obtaining board approval, and staying within the capital market exposure ceiling of forty per cent of net worth. Additionally, accepting marketable shares as security provides further protection for the bank's interests during the transaction.
15. (D) I, II, III, IV, and V
The five C's of credit represent a fundamental framework for assessing a borrower's creditworthiness. Character evaluates integrity and reputation. Capacity measures the ability to repay the loan from earnings. Capital reflects the owner's investment in the business. Collateral provides security in case of default. Finally, Conditions consider the broader economic and industry environment that could impact the borrower's future performance.
16. (B) Only Statement II is correct
For government-owned infrastructure projects, banks must conduct rigorous credit appraisals regardless of any guarantees or standing instructions. A state government guarantee is

potential for delays in large-scale infrastructure development.

33. (B) Rs. 1,25,000

To find the Break Even Sales volume, one must first determine the contribution margin ratio. With sales of 2.5 lakh and variable costs of 1.5 lakh, the contribution is 1 lakh, or forty per cent of sales. Dividing the fixed cost of fifty thousand by this forty per cent ratio results in a break-even sales level of one lakh twenty-five thousand rupees.

34. (A) The Debt Equity Ratio agreed at initial closure must improve in favor of the promoters. When banks fund cost overruns not originally envisaged, they must follow specific prudential conditions to avoid 'restructured' classification. These include ensuring promoters bring in their share first and maintaining acceptable debt service ratios. However, the requirement is typically that the Debt Equity Ratio should remain unchanged or improve in favor of the lenders, rather than improving in favor of the promoters.

35. (A) P-2, Q-1, R-4, S-3

The Break Even Point capacity utilization is a key indicator of a project's financial risk. A BEP of fifty per cent or less is considered very healthy, as it leaves a large margin for error. As the BEP increases to between fifty-one and sixty-five per cent, the risk remains low. Levels above seventy per cent indicate high risk, as profitability becomes vulnerable.

36. (B) They are excluded from the 10 per cent ceiling of the original project cost limit due to external factors.

Cost overruns in infrastructure projects can occur due to various reasons, including currency volatility. While there is generally a ten per cent ceiling on funding overruns without restructuring the asset, regulatory guidelines provide exceptions. Specifically, cost increases directly caused by fluctuations in the Indian Rupee against foreign currencies are excluded from this ceiling, recognizing these as external factors beyond the promoter's control.

37. (C) Ideal Gross DSCR is 1.50-1.75 and Net DSCR is ~2

The Debt Service Coverage Ratio measures the adequacy of cash flows to meet debt obligations. For a business to service its debt comfortably, banks look for specific benchmarks. An ideal Gross DSCR range is typically between 1.50 and 1.75. For Net DSCR, which considers the total repayment period, a benchmark around 2 is preferred to ensure a sufficient safety margin for lenders.

38. (A) I, II, III, IV, and V

Infrastructure lending includes various projects within the social and commercial sectors provided they meet specific criteria. This encompasses convention centres with a cost exceeding three hundred crore rupees, hospitals with a cost exceeding one hundred crore rupees, and educational institutions with a cost exceeding twenty-five crore rupees. It also includes hotels with a project cost over two hundred crore rupees or those with a three-star rating or higher located in cities with a population under one million.

39. (B) The discount rate making the net present value (NPV) of all future cash flows equal zero in a DCF analysis.

The Internal Rate of Return is a critical metric in project appraisal using discounted cash flow analysis. It represents the specific interest rate at which the present value of all expected future cash inflows exactly equals the initial investment cost. Essentially, it is the break-even discount rate where the project's net present value becomes zero, indicating the project's inherent profitability.

40. (A) Up to one year extension; maximum Rs. 50 crores non-IDC funding

For non-infrastructure projects, regulatory limits for funding cost overruns without restructuring are stricter than for infrastructure. The maximum extension permitted for the Date of Commencement of Commercial Operations is one year. Additionally, the funding for non-interest cost overruns is capped at ten per cent of the original project cost. For a five hundred crore project, this maximum funding is fifty crore rupees.

24. (C) Rs. 50 crores

To manage risk concentration and ensure market stability, regulatory guidelines set an aggregate limit on the Partial Credit Enhancement provided by all participating banks for a single bond issue. This limit is capped at fifty per cent of the total bond issue size. Individual banks are also subject to specific limits within this aggregate ceiling when providing these contingent credit facilities to corporates.

25. (A) P-2, Q-1, R-3, S-4

Financial planning for projects distinguishes between what funds are needed and where they come from. Land and site development are capital expenditures categorized under Cost of the Project. Reserves and surpluses represent internal funds, classified as Means of Finance. A Deferred Payment Guarantee is a mechanism to finance assets, while vehicles and equipment represent another component of the overall project cost structure.

26. (B) It may, at the discretion of the bank, be made available as a revolving facility.

Partial Credit Enhancement is structured as a non-funded, irrevocable contingent line of credit to support bond issues. According to regulatory guidelines, banks have the flexibility to offer this facility as a revolving line. This allows the credit enhancement to remain available to cover multiple interest or principal payments over the life of the bond, provided drawn amounts are subsequently repaid.

27. (A) It is the point where Total Costs equal Sales value.

The Break Even Point is a fundamental concept in commercial appraisal, representing the level of operations where a business neither makes a profit nor incurs a loss. At this specific point, the total revenue generated from sales is exactly equal to the sum of all fixed and variable costs. Achieving this volume is necessary before the unit can start generating net profits.

28. (C) I, II, IV, and V only

Managing Partial Credit Enhancement requires rigorous controls. Assets must be ring-fenced through escrow accounts managed by bond trustees. The project must be financially viable even without enhancement, and banks must

honor their commitments regardless of the borrower's asset classification. However, banks must perform their own internal credit analysis and cannot solely rely on external ratings, ensuring a more robust risk assessment process.

29. (D) Assertion (A) is false, but Reason (R) is true.

Even if the selling price exceeds the total cost per unit, a business does not immediately become profit-generating from the first sale. Initial revenues must first cover the significant fixed costs incurred regardless of production. Only after the Break Even Point is reached does the profit element loaded into each unit contribute to net profit. Therefore, the first unit only contributes toward recovery.

30. (C) Standby Credit Facility

Infrastructure projects often face uncertainties that can lead to cost overruns. To address this, lenders may sanction a standby credit facility during the initial financial closure. This contingent facility is specifically designed to provide additional funding if anticipated but uncertain excess costs materialize. It ensures that the project has access to necessary capital to reach completion without requiring a new appraisal process mid-construction.

31. (D) Rs. 10

In marginal costing and break-even analysis, contribution represents the portion of sales revenue that remains after covering variable costs. It is calculated by subtracting the variable cost per unit from the selling price per unit. For a product sold at twenty-five rupees with a variable cost of fifteen rupees, the resulting contribution of ten rupees is first used to cover fixed costs.

32. (B) Upto two years

Regulatory guidelines allow for the extension of the Date of Commencement of Commercial Operations for infrastructure projects under certain circumstances. Banks can fund cost overruns arising from such delays without classifying the loan as a restructured asset, provided the extension does not exceed two years from the original date. This flexibility acknowledges the inherent complexities and

- (C) 1,250 units
- (D) 2,500 units

May/June 2007

- 73.** Where initial financial closure does not envisage financing of cost overruns, banks may fund them without treating the asset as restructured, provided certain conditions are met. Which of the following is NOT one of those conditions?
- (A) The Debt Equity Ratio agreed at initial closure must improve in favor of the promoters.
 - (B) Disbursement of funds for cost overruns should start only after Sponsors/Promoters bring in their share.
 - (C) All other terms and conditions of the loan should remain unchanged or be enhanced in favour of lenders.
 - (D) The revised Debt Service Coverage Ratio (DSCR) should be acceptable to the lenders and the lead bank.

Oct/Nov 2016

- 74.** A unit operates at 60% capacity utilisation, and its Break Even Point (BEP) capacity utilisation is calculated at 45%. What is the Margin of Safety for this unit?
- (A) 15%
 - (B) 45%
 - (C) 55%
 - (D) 105%

May/June 2014

- 75.** The original cost of a project was Rs. 1,000 crores. Due to delays, the project faces a cost overrun of Rs. 150 crores, consisting of Rs. 30 crores in Interest During Construction (IDC) and Rs. 120 crores in material cost escalations. Under regulatory guidelines to avoid 'restructured' classification, what is the maximum amount of the material cost escalation (excluding IDC) the bank can fund?
- (A) Rs. 30 crores
 - (B) Rs. 100 crores
 - (C) Rs. 120 crores
 - (D) Rs. 150 crores

Oct/Nov 2008

- 76.** A credit analyst calculates the Break Even Point (BEP) of a proposed project at 78% capacity utilisation. Based on the standard

risk evaluation metrics for BEP, how should this project's risk level be classified?

- (A) Low risk
- (B) Medium risk
- (C) High risk
- (D) Very high risk

May/June 2006

- 77.** Identify the incorrect pair linking the infrastructure sub-sector to its primary category.
- (A) Solid Waste Management — Water & Sanitation
 - (B) Soil-testing laboratories — Transport
 - (C) Electricity Transmission — Energy
 - (D) Telecommunication towers — Communication

Oct/Nov 2017

- 78.** When calculating the Average Gross DSCR for the entire repayment period, what specific components constitute the denominator of the formula?
- (A) Horizontal Sum of cash Accrual plus Interest on all term loans for all the years to determine the total surplus.
 - (B) Horizontal Sum of cash Accrual only, without accounting for interest or tax components during the projection period.
 - (C) Total Principal instalments on all Term Loans due during the period plus Interest on all term loans for all years.
 - (D) Horizontal Sum of Principal Instalments on all Term Loans due during the corresponding period only without interest.

May/June 2021

- 79.** Consider the following points regarding the appraisal of cost overruns not envisaged at initial financial closure:
- I. The ceiling of 10% of the original project cost applies to all cost overruns excluding Interest During Construction and exchange rate fluctuations.
 - II. The Debt Equity Ratio should remain unchanged or improve in favour of the lenders.
 - III. The Debt Service Coverage Ratio evaluation is waived for the overrun portion.
- Which of the above points must a bank

41. (A) Sensitivity Analysis

Sensitivity analysis is a vital tool used during project appraisal to assess how changes in key variables impact financial viability. It tests the resilience of the project by simulating adverse movements in input costs or output prices. By observing the resulting changes in the Break Even Point, Debt Service Coverage Ratio, and Internal Rate of Return, lenders can identify the project's primary risks.

42. (B) Working Capital Term Loan (WCTL)

When an enterprise faces a liquidity crunch and cannot provide the required Net Working Capital to maintain its current ratio, banks may intervene. Instead of a standard revolving line, they might provide a Working Capital Term Loan. This facility helps the borrower bridge the gap in long-term funds needed for operations, allowing for a structured repayment over time while stabilizing the unit's liquidity.

43. (A) 8th April, 2016

The classification of sectors that qualify for infrastructure lending is governed by specific government notifications. These definitions are crucial for banks to apply correct regulatory treatments and prudential norms. According to the Gazette Notifications issued by the Ministry of Finance, the presently qualifying infrastructure sectors and their respective sub-sectors were defined under the notification dated the seventh of April, two thousand and sixteen.

44. (C) Term loans follow a fixed repayment schedule, whereas working capital is sanctioned for one year and payable on demand.

Banks categorize loans as short-term or long-term assets based on their maturity profiles and repayment terms. Term loans are used for capital expenditure and have fixed, multi-year repayment schedules, making them long-term assets. In contrast, working capital facilities are typically sanctioned for one year, are subject to annual renewal, and are technically payable on demand, classifying them as short-term assets.

45. (B) Rolling stock used in urban road transport. The infrastructure definition for the transport sector includes various urban public transport components such as bridges, viaducts,

tunnels, and metro systems. However, specific exclusions apply to maintain the focus on core infrastructure. Regulatory guidelines explicitly exclude rolling stock used in urban road transport from this category, even though the roads and associated structures themselves are considered part of the transport infrastructure framework.

46. (C) There is a uniform repayment schedule mandated for all term loans across industrial sectors.

Repayment schedules for term loans are flexible and tailored to the unique cash flow characteristics of each borrower. There is no single uniform mandate across different industries. For example, some loans might use bullet repayments, while others follow monthly or quarterly instalments. In agriculture, repayments are often synchronized with cropping seasons to ensure the farmer has sufficient funds available to pay.

47. (D) Predominance of short-term working capital over long-term funding.

Infrastructure projects possess unique characteristics that differentiate them from standard manufacturing projects. They typically involve exceptionally long implementation periods, significant gestation phases, and high debt-to-equity ratios. Unlike smaller businesses where working capital might be the primary focus, infrastructure lending is dominated by large-scale, long-term funding requirements necessary to sustain the project through its extended construction and slow initial revenue-generating stages.

48. (D) Deferred Payment Guarantee (DPG)

When a business acquires fixed assets but pays the supplier over an extended period rather than upfront, it uses a specific financial mechanism. A Deferred Payment Guarantee is a non-fund based facility where a bank guarantees these scheduled repayments. This allows the purchaser to obtain machinery or equipment while the bank's formal assurance provides the supplier with security against potential payment defaults.

ANSWERS

1. (B) P-4, Q-1, R-2, S-3
Financial mechanisms in project finance serve distinct purposes to manage risks and liquidity. Deferred Payment Guarantees act as non-fund based credit where banks assure suppliers of payments for fixed assets. Take-out financing specifically addresses asset-liability mismatches by transferring loans. Partial Credit Enhancement improves bond ratings, while standby credit facilities fund unforeseen costs during the initial implementation phase.
2. (C) I and II only
Banks evaluate specific financial ratios to determine the safety and potential recovery of extended credit. Fixed Assets Coverage Ratio and Security Margin Coverage Ratio directly measure the cushion provided by collateral against the loan amount. While the Debt Service Coverage Ratio is essential for evaluating repayment capacity from operational cash flows, it does not explicitly measure security coverage or recovery.
3. (A) Sustaining the current assets level of a business
Working capital loans are primarily designed to meet the day-to-day operational requirements of a business entity. This involves financing the gap between current assets, such as inventory and receivables, and current liabilities. Unlike term loans which fund long-term fixed assets or infrastructure projects, working capital ensures smooth operations by maintaining sufficient liquidity for the production and sales cycle.
4. (D) I, II, III, IV, and V
The definition of infrastructure lending encompasses several broad sectors as recognized by regulatory and government notifications. These include transportation networks, energy generation and distribution, water and sanitation systems, and communication facilities. Additionally, the social and commercial infrastructure segment covers vital sectors like health, education, and specific commercial developments, ensuring a comprehensive framework for financing various nation-building projects across multiple categories.
5. (D) DSCR is vital for evaluating term loan repayment, while liquidity ratios are primary for assessing working capital requirements. Credit appraisal priorities differ based on the nature of the loan. Term loan evaluation focuses on long-term sustainability and the ability to service debt over time, making the Debt Service Coverage Ratio a critical metric. In contrast, working capital appraisal emphasizes short-term liquidity and the current ratio to ensure the borrower can meet immediate operational obligations without financial strain.
6. (C) P-4, Q-2, R-3, S-1
Infrastructure projects are categorized into specific sectors based on their operational nature. Liquefied Natural Gas storage facilities fall under the energy sector. Water supply pipelines are essential components of water and sanitation infrastructure. Terminal markets provide necessary social and commercial infrastructure for trade. Finally, inland waterways are a mode of transport, completing the classification of these diverse capital-intensive projects.
7. (B) Equated Monthly Instalments, Cropping pattern repayment, and Monthly/quarterly repayments.
Loan repayment structures are tailored to the specific cash flow patterns of different borrowers. Salaried individuals receive regular income, making monthly instalments appropriate. Farmers generate income based on harvest cycles, necessitating repayment schedules aligned with cropping patterns. Large industrial enterprises typically utilize monthly or quarterly schedules, reflecting their regular operational cycles and the substantial cash surpluses generated from their manufacturing or service activities.

sequence that must be followed for every single credit proposal.

57. (D) I, II, and III

Financing through Special Purpose Vehicles requires specialized appraisal skills due to the unique risk profiles involved. Lenders must identify various project risks and evaluate how these are mitigated through complex project contracts. Additionally, it is essential to assess the creditworthiness and operational capacity of the contracting entities, as the project's success depends on their ability to fulfill specific long-term obligations.

58. (B) It evaluates the macro-economy to determine if incremental production will be accepted by the wider market.

Economic appraisal focuses on the broader environment in which a project will operate. It analyzes macro-economic trends and market conditions to assess whether there is sufficient demand for the project's output. By evaluating factors like competition and consumer trends, the appraisal determines if the project's incremental production will be successfully absorbed by the market, ensuring long-term commercial viability for the business.

59. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Infrastructure lending involves long gestation periods and extended repayment schedules. Banks must maintain strict vigil over their asset-liability positions because funding these long-term projects using short-term deposits can lead to liquidity mismatches. To prevent financial instability, it is essential that the maturity profile of the bank's assets is carefully managed to align with the duration and profile of its liabilities.

60. (D) I, II, III, and IV

Technical appraisal is a multifaceted evaluation of a project's physical and operational feasibility. It includes reviewing licensing and registration requirements to ensure legal compliance. It also examines the availability of essential infrastructure, the suitability of the chosen technology, and the projected offtake of products. Together, these factors confirm that

the project can be built and operated efficiently according to the proposed plans.

61. (B) Take-out Financing Arrangement

Take-out financing is a strategic mechanism used in infrastructure lending to manage long-term credit risks and liquidity. It allows banks to transfer their outstanding loans to another financial institution after a pre-determined period. This arrangement is specifically designed to help banks avoid asset-liability maturity mismatches that occur when they provide very long-term loans for projects using relatively shorter-term sources of funds.

62. (C) P-4, Q-3, R-1, S-2

Different types of appraisal focus on specific aspects of project viability. Environmental appraisal ensures regulatory clearances regarding pollution. Market appraisal evaluates competition and market share. Commercial appraisal measures profitability and debt-servicing capability over time. Finally, prima facie acceptability appraisal confirms that the proposal aligns with basic regulatory prescriptions and bank policies, serving as the initial screening step in the credit process.

63. (D) I and II only

Partial Credit Enhancement is a specific tool used by banks to help corporates access bond markets. It is provided as a non-funded, irrevocable contingent line of credit, not as a traditional financial guarantee. The primary objective is to improve the bond's credit rating, allowing the issuer to attract investors and secure better financing terms for their large-scale infrastructure projects.

64. (D) Interest During Construction — Means of Finance [MoF]

In project appraisal, cost items are distinguished from funding sources. Items like preliminary expenses and working capital margins are part of the total project cost. Similarly, Interest During Construction is considered a cost because it represents a capital expenditure incurred before operations begin. It is not a means of finance, which instead includes things like share capital, internal accruals, and debt.

CHAPTER 21

Credit Delivery and Straight Through Processing

Oct/Nov 2009

1. A financial institution recently adopted a fully integrated STP solution to handle its credit propositions. During the first quarter of deployment, the management noticed a significant rise in rejected applications and incorrect risk scorings. Upon investigation, it was found that the operating staff had been consistently entering incorrect initial values regarding borrower liabilities. Which critical principle of automated processing does this situation most directly highlight?
 - (A) The core banking solution is fundamentally incompatible with external third-party underwriting engines used by the bank.
 - (B) Wrong data entry causes a chain of bad output as subsequent results depend on initial input.
 - (C) Rule-based automation systems cannot process quantitative liability metrics accurately under any circumstances or environments.
 - (D) The STP software requires constant daily reprogramming by developers to adapt to varying human inputs.

May/June 2023

2. At the time of financing projects, banks generally adopt specific methodologies for determining the sequence of promoters' equity infusion. Which of the following is an exception and NOT one of the recognized methodologies?
 - (A) Promoters bring their entire contribution upfront before the bank starts disbursing its financial commitment.
 - (B) Promoters bring 40–50% of their equity upfront and provide the remaining balance in stages.
 - (C) Securing short-term loans from other banks to cover equity until the project is

operational.

- (D) Promoters agree ab initio to bring equity funds proportionately alongside the disbursed debt portion.

Oct/Nov 2018

3. Within what time frame must a charge over securities be registered with the Registrar of Companies (ROC) from the date of execution of the documents?
 - (A) Within 30 days
 - (B) Within 15 days
 - (C) Within 45 days
 - (D) Within 60 days

May/June 2007

4. In a consortium lending arrangement, what is the primary operational role of the 'Lead bank'?
 - (A) To solely provide 100% of the funds while other banks only provide third-party guarantees for the loan.
 - (B) To independently dictate the dividend policies and management decisions of the borrowing corporate enterprise.
 - (C) To legally absorb all non-performing assets if the borrowing company defaults on the entire debt.
 - (D) Arranging member meetings and leading the assessment, documentation, and charge creation.

Oct/Nov 2025

5. Identify the correct statement regarding the temporal relationship between the stamping and execution of loan documents.
 - (A) The date of execution of documents should consistently precede the date of stamping.
 - (B) The stamping of documents becomes legally valid only after they have been fully executed.
 - (C) The date of execution and the date of

ensuring promoters contribute their share before bank disbursement and maintaining acceptable debt service coverage. While the debt-equity ratio is monitored, the requirement is that it should not deteriorate for lenders; there is no specific mandate that it must improve in favor of the promoters.

74. (A) 15%

Margin of safety represents the difference between a project's actual or projected operating level and its break-even point. It indicates the extent to which sales can decline before the business starts incurring losses. In this scenario, with the unit operating at sixty per cent capacity and breaking even at forty-five per cent, the margin of safety is fifteen per cent of its capacity.

75. (B) Rs. 100 crores

Banks can fund cost overruns in infrastructure projects without restructuring the loan, provided the additional funding for non-interest and non-exchange rate items stays within ten per cent of the original project cost. For a thousand crore project, this ceiling is one hundred crores. Therefore, even though the material cost escalation is one hundred twenty crores, the bank can only fund up to one hundred crores.

76. (C) High risk

The risk profile of a project is often determined by its break-even point. A higher break-even point means the project has less room for error in achieving its sales targets. According to standard evaluation metrics, a break-even capacity utilization between seventy-one and eighty-five per cent is classified as high risk, as the project must operate at a very high level just to cover its costs.

77. (B) Soil-testing laboratories — Transport

Infrastructure sectors are divided into specific categories based on their function. Solid waste management belongs to water and sanitation, while electricity transmission is part of energy. Telecommunication towers fall under communication. Soil-testing laboratories, however, are categorized under the social and commercial infrastructure segment, specifically as support for agriculture, rather than being

part of the transport sector, making this the incorrect pair.

78. (C) Total Principal instalments on all Term Loans due during the period plus Interest on all term loans for all years.

The Debt Service Coverage Ratio is used to assess a borrower's capacity to repay loans. When calculating the Average Gross DSCR for the entire repayment period, the denominator represents the total debt service obligation. This is the sum of all principal instalments due on term loans and the total interest payable on those loans across the entire duration of the projection.

79. (D) I and II only

When appraising cost overruns not envisaged at initial closure, banks must follow specific rules. The ten per cent ceiling on funding applies to the original project cost, excluding interest and exchange rate fluctuations. Additionally, the debt-equity ratio should remain stable or improve for lenders. However, a full evaluation of the revised Debt Service Coverage Ratio is still required and cannot be waived.

80. (D) Investors view IRR for returns; lenders view it to ensure investor commitment and interest in the business.

The Internal Rate of Return is valued differently by stakeholders. Investors use it to measure the profitability and potential return on their equity. For lenders, while the primary focus is on the Debt Service Coverage Ratio for repayment, a healthy IRR is still important. It ensures that the investors remain committed and motivated to manage the project successfully over its long-term lifecycle.

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- II. It utilizes Big Data and Artificial Intelligence combos to enhance risk mitigation.
- III. It automatically discards genuine trade transactions to favor round-about transaction entries.
- IV. It relies on databases from Credit Information Companies to evaluate borrower economic behavior patterns.
- V. It can autonomously arrive at a recast profit and loss account based on true transaction data.

Which of the combinations of statements is correct?

- (A) I, II, IV, and V only
- (B) I, II, III, and V only
- (C) II, III, IV, and V only
- (D) I, III, IV, and V only

Oct/Nov 2024

- 23.** Which fundamental legal principle determines who possesses the authority to create a valid charge over a specific asset or security?
- (A) Only the guarantor of the primary loan can create a charge.
 - (B) Only the owner of an asset can create a charge over it.
 - (C) Only the lead bank in a consortium can initiate the creation of a charge.
 - (D) Only a registered legal practitioner can authorize the creation of a charge.

May/June 2017

- 24.** Assertion (A): Rule-based automation through Straight-Through Processing (STP) significantly reduces the chances of unintentional omissions and intentional commissions in lending decisions.
Reason (R): Human tendency is often judgemental and susceptible to personal biases when evaluating subjective parameters like previous track records.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is

true.

Oct/Nov 2005

- 25.** Identify the correct pair representing a method of creating a charge and its corresponding operational characteristic.
- (A) Pledge — The bank takes physical or constructive possession of the security.
 - (B) Lock and Key — The borrower retains full and exclusive control over the warehouse keys.
 - (C) Hypothecation — The bank takes physical possession of the keys to the godown.
 - (D) Lien — The borrower transfers the absolute ownership title of the asset to the bank.

May/June 2020

- 26.** Macro-economic environment undergoes a sudden, dramatic shift due to global trade policy changes, affecting the repayment capacity of an entire industrial sector. A bank uses an STP system for loan origination. How should the STP architecture be designed to handle such dynamic environmental shifts effectively?
- (A) The system must require a complete replacement of its core banking solution hardware.
 - (B) The programming should allow parameterisation flexibility at the user-end with due authorization.
 - (C) The system must automatically pause all lending operations until a human programmer rewrites the static code.
 - (D) The algorithm must be designed to completely ignore macro-economic variables to ensure processing speed.

Oct/Nov 2015

- 27.** Identify the correct statement regarding the process of delivering goods to a borrower under a 'Lock and Key' advance.
- (A) The borrower has to deposit the money in her cash credit account or provide a trust receipt before goods are delivered.
 - (B) The borrower must obtain written permission from the Registrar of Companies before accessing the goods.
 - (C) The Godown Keeper directly hands over the goods to the borrower without any prior financial transaction.

stamping must strictly be on the same calendar day.

- (D) The date of execution of documents should never be earlier than the date of stamping.

May/June 2012

6. What was the most appropriate underlying reason that prompted the Central Vigilance Commission (CVC) to express concerns, leading to the strengthening of guidelines on consortium and multiple banking arrangements?
- (A) The excessive taxation levied on syndicated loans by various state governments across different jurisdictions.
- (B) The technological failure of straight-through processing engines in calculating drawing power for large loans.
- (C) High fraud incidence due to ineffective sharing of credit history and account conduct.
- (D) The reluctance of promoters to bring their required equity contribution upfront in project finance.

Oct/Nov 2014

7. Arrange the following steps regarding the creation of a legally valid documentation and charge in the correct sequential order:
- I. Execution of the documents by the relevant parties
- II. Registration of the security interests with CERSAI
- III. Proper stamping of the legal documents
- IV. Registration of the charge with the Registrar of Companies (for companies)
- (A) I, III, IV, II
- (B) III, I, IV, II
- (C) I, II, III, IV
- (D) III, IV, I, II

May/June 2019

8. Identify the incorrect pair of a professional and their assigned role regarding the certification of compliance with statutory prescriptions in multiple banking.
- (A) Human Resource Manager — Obtaining regular certification regarding compliance
- (B) Company Secretary — Obtaining regular certification regarding compliance
- (C) Chartered Accountant — Obtaining regular certification regarding compliance

- (D) Cost Accountant — Obtaining regular certification regarding compliance

Oct/Nov 2006

9. A commercial bank is extending a highly complex, non-standardised credit facility to a corporate borrower involving multiple customized covenants and specialized collateral. How should the documentation for this specific transaction be handled?
- (A) The legal department of the bank must draft specific documents applicable to that particular case.
- (B) The branch manager should manually amend the standard printed documents to reflect the new terms.
- (C) The borrower's legal counsel must prepare the documentation to ensure neutral terms.
- (D) The standard documents must be utilized without any alterations to comply with regulatory guidelines.

May/June 2021

10. Assertion (A): Sole banking may not be suitable if a borrower's financing requirements grow beyond the comfort level of the financing bank due to prudential norms or risk perception. Reason (R): In such cases, the financing bank would prefer to initiate a consortium arrangement to share the financial requirements and associated risks with another bank.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2010

11. Identify the incorrect pair of a specific asset and its corresponding additional registering authority.
- (A) Commercial Real Estate — Central Vigilance Commission
- (B) Aircrafts — Director General of Civil Aviation
- (C) Ships — Mercantile Marine Department

Oct/Nov 2017

- 33.** A large corporate borrower currently enjoys a working capital credit limit of Rs. 200 crores from the banking system. According to regulatory guidelines, what should ideally be the minimum proportion of the loan component in this limit?
- (A) 20 per cent
(B) 60 per cent
(C) 40 per cent
(D) 80 per cent

May/June 2008

- 34.** Match the items in List I with those in List II:
- List I: Data Variables in STP
- P. Aadhaar Number
Q. EMI/NMI Ratio
R. True Transaction Data
S. Rule-based automation
- List II: Relevant Functions
- Used to recast profit and loss accounts accurately by eliminating round-about entries
 - Obviates the chances of omission caused by human judgemental biases
 - Electronic linkage to UIDAI for rapid identity verification
 - A critical quantitative metric used in the credit decision of personal segment lending
- (A) P-3, Q-4, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-2, S-1
(D) P-3, Q-1, R-4, S-2

Oct/Nov 2013

- 35.** What is the minimum regulatory tenor prescribed for the loan component when splitting a working capital limit?
- (A) Not less than seven days
(B) Not less than fourteen days
(C) Not less than thirty days
(D) Not less than ninety days

May/June 2015

- 36.** An established commercial bank traditionally focused on retail personal loans and successfully implemented end-to-end automation for that segment. The board now aims to expand its portfolio and scale up its customer base. Based on contemporary utility trends of processing platforms, what is the most strategic

application of their existing technology to achieve this goal?

- (A) Restricting the automation solely to personal loans as commercial lending completely rejects mechanized analysis techniques.
(B) Reverting entirely to manual appraisal methods for all commercial clients to ensure physical verification of godown keys.
(C) Creating a separate, entirely offline manual processing unit exclusively to handle the statutory compliance of corporate accounts.
(D) Adapting and utilizing STP infrastructure for MSME and other commercial lending.

Oct/Nov 2012

- 37.** A retail customer applies for a term loan to purchase a readymade house. The bank requires the customer to contribute a margin towards the purchase price. The customer provides satisfactory proof that a certain amount has already been paid directly to the builder. How should the bank treat this advance payment?
- (A) The bank must ignore the advance payment and require the full margin to be deposited afresh into the loan account.
(B) The bank must credit the advance payment amount directly to the customer's personal savings account.
(C) The bank deducts the advance payment amount from the ultimate valuation of the property for collateral purposes.
(D) The bank considers this payment to be a part of the customer's required contribution (margin).

May/June 2011

- 38.** Identify the correct statement regarding the dependency of STP systems on data integrity.
- (A) An error-free coding of the algorithm automatically corrects any initial wrong data fed into the system by the user.
(B) Major play in STP efficiency relies exclusively on the speed of the hardware, independent of the data input quality.
(C) Every subsequent result is based on initial data, so wrong data causes bad output.
(D) STP systems utilize artificial intelligence to autonomously generate initial customer

utilize to protect its interests in this specific scenario?

- (A) Obtain an undertaking to convert the cash credit limit into a term loan upon any management change.
- (B) Obtain director guarantees to ensure management continuity or consent for changes.
- (C) Register a temporary secondary charge over the private residential properties of the shareholders.
- (D) Demand the immediate repayment of all outstanding limits prior to any scheduled general body meeting.

May/June 2025

18. Arrange the following historical milestones representing the evolution of loan processing architectures in chronological order:
- I. The advent of the internet rendering physical location irrelevant for loan processing.
 - II. The establishment of new generation private sector banks focusing on the unexplored personal loan segment.
 - III. The shifting of the banking process from manual methods to a mechanised environment in the 1980s.
 - IV. The implementation of fully automated Straight-Through Processing (STP) engines.
 - V. The era of Liberalisation, Privatisation, and Globalisation (LPG) followed by banking reforms.
- (A) III, V, II, I, IV
 - (B) V, III, I, II, IV
 - (C) III, II, V, IV, I
 - (D) II, III, V, I, IV

Oct/Nov 2019

19. Assertion (A): Banks generally prohibit the payment of consideration, such as commission or brokerage fees, by the borrowing company to the guarantors for providing personal guarantees.
Reason (R): Remuneration may be permitted in exceptional cases where an assisted concern is not doing well, existing guarantors are disconnected from management, and new guarantees are essential.
- (A) Both Assertion (A) and Reason (R)

are true, and Reason (R) is the correct explanation of Assertion (A).

- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2009

20. An effective STP software must exhaustively identify and account for all possible risk elements to function properly. Which of the following is NOT typically classified as a risk element mitigated by STP integration?
- (A) Exchange risks
 - (B) Management risks
 - (C) Default risks
 - (D) Syndication mandate risks

Oct/Nov 2011

21. A group of professionals acquires an ailing industrial unit. The bank requires the new management to provide personal guarantees to continue the credit facilities. The new management argues that their guarantees are inadequate and demands a guarantee commission from the borrowing entity. Based on RBI guidelines, how should the bank handle this request?
- (A) The bank must flatly reject the request as guarantee commissions are universally prohibited without exception.
 - (B) The bank must pay the guarantee commission directly from its own profits to sustain the industrial unit.
 - (C) The bank should waive the guarantee requirement entirely and rely solely on the primary security of the ailing unit.
 - (D) The bank may permit the payment of remuneration since the concern is not doing well and the continuance of guarantees is essential.

May/June 2010

22. Consider the following statements describing the comprehensive capabilities of a contemporary STP system:
- I. It integrates with third-party services to access real-time transactional data about prospective borrowers.

- 65.** (B) No, because banks may offer PCE only for bonds with a pre-enhanced rating of BBB minus or better.

Regulatory guidelines for providing Partial Credit Enhancement include strict eligibility criteria for the bonds being supported. Banks are only permitted to offer this facility for corporate bonds that have a pre-enhanced credit rating of BBB minus or better. Since the bond in this scenario has a lower rating of BB, the bank cannot legally provide the credit enhancement facility.

- 66.** (D) I, II, III, and IV

Accurate estimation of production costs and profitability requires a detailed analysis of several operational factors. This includes assessing the installed capacity and the planned capacity utilization over time. Additionally, the number of shifts and working days must be considered alongside the specific quantities and prices of both inputs and outputs. Together, these variables form the basis for projecting a project's future cash flows.

- 67.** (B) Only Statement II is correct

When managing Partial Credit Enhancement facilities, banks must follow specific accounting treatments. Any portion of the facility that is actually drawn must be reported as an advance on the balance sheet. Undrawn portions are classified as contingent liabilities. Regarding repayment priority, drawn PCE amounts do not typically rank above bondholders; instead, they usually rank pari-passu or subordinate to the enhanced bonds.

- 68.** (D) Fixed Cost is inelastic regardless of production levels, while Variable Cost varies in proportion to production.

In break-even analysis, costs are classified based on their relationship to production volume. Fixed costs, such as rent and administrative salaries, remain constant regardless of whether the unit produces one item or thousands. Variable costs, including raw materials and direct labor, change in direct proportion to the volume of production, increasing as more units are manufactured and decreasing when production drops.

- 69.** (D) To ensure continuous monitoring of the rating migration of the issuers/issues.

Banks providing Partial Credit Enhancement are required to establish systems for the regular tracking of the issuer's financial health. The primary goal of this ongoing monitoring is to detect any rating migration of the supported bonds or the issuers themselves. This proactive approach allows the bank to assess evolving risks and ensure the credit enhancement remains appropriate for the project's status.

- 70.** (C) First towards recovery of Fixed Cost, and then to generation of Profit.

The concept of contribution is central to understanding business profitability. After variable costs are deducted from sales revenue, the remaining contribution is first allocated to recovering the firm's fixed costs. Only after all fixed costs have been fully covered—reaching the break-even point—does any additional contribution from subsequent sales start to accumulate as net profit for the business enterprise.

- 71.** (B) It ranks pari passu with the base project loans.

A standby credit facility is often established at the start of an infrastructure project to cover potential cost overruns. To ensure fair treatment among lenders and simplify the financial structure, regulatory guidelines generally stipulate that these facilities should rank pari passu with the primary project loans. This means they have equal priority in terms of repayment and claims on the project's assets.

- 72.** (C) 1,250 units

The Break Even Point in units is calculated by dividing the total fixed costs by the contribution per unit. In this case, the selling price of twenty rupees minus the variable cost of twelve rupees yields a contribution of eight rupees per unit. Dividing the annual fixed cost of ten thousand rupees by eight results in a break-even point of one thousand two hundred fifty units.

- 73.** (A) The Debt Equity Ratio agreed at initial closure must improve in favor of the promoters. Funding unplanned cost overruns requires adherence to specific prudential norms to avoid restructuring labels. These conditions include

- (D) The borrower maintains an absolute right to independently replace the goods stored in the godown at any time.

May/June 2013

28. Which of the following is the most appropriate description of the symbiotic relationship between lenders and Credit Information Companies within an STP framework?
- (A) Lenders rely on Credit Information Companies solely to initiate legal recovery proceedings under the SARFAESI Act protocols.
- (B) Lenders pay Credit Information Companies a syndication fee to guarantee the continuous management of closely held companies.
- (C) Lenders access risk databases for decisions and feed appraisal data back into the pool.
- (D) Lenders outsource the entire parameterisation of their proprietary lending algorithms to Credit Information Companies.

Oct/Nov 2021

29. A manufacturer approaches a bank for inventory financing. The manufacturer requires uninterrupted access to the raw materials to keep the production line moving but agrees to hold the materials on behalf of the bank. The bank agrees to this arrangement to facilitate operational convenience. What specific legal concept describes the manufacturer holding the goods as an agent of the bank?
- (A) Sole Banking Possession
- (B) Constructive Possession
- (C) Syndicated Possession
- (D) Unhedged Possession

May/June 2024

30. Identify the incorrect statement concerning the automation of credit processing and the prevention of errors.
- (A) Opportunities for commission are relatively less when software is backed by big data analysis and artificial intelligence.
- (B) Omissions and commissions can be either unintentional errors or intentional frauds.
- (C) The dynamic nature of the environments requires parameterisation to have dependence on the programmer at every moment without user-end flexibility.

- (D) As STP is rule-based automation, the chances of unintentional omission are almost entirely obviated.

Oct/Nov 2008

31. Consider the following statements regarding the regulation and calculation of Drawing Power (DP):
- I. The drawings in the cash credit account are strictly regulated through the system of Drawing Power.
- II. DP calculation involves deducting the stipulated Net Working Capital (NWC) from all current assets and liabilities.
- III. Banks typically calculate DP by obtaining statements of stocks, book-debts, and sundry creditors.
- IV. The statement of stocks and book-debts is normally obtained on an annual basis to calculate DP.
- V. Suitable margins are stipulated on stocks and book-debts to arrive at the applicable DP.

Which of the combinations of statements is correct?

- (A) I, II, III, and V
- (B) I, III, and V only
- (C) II, IV, and V only
- (D) I, II, III, IV, and V

May/June 2006

32. Consider the following statements regarding the critical elements necessary for unbiased automated credit decisions in personal segment lending:
- I. Verification of ownership documents and prior-charge history plays a vital role.
- II. Capturing the credit record and score, along with the Loan-to-Value Ratio, is essential.
- III. Decisions must be made independently, decoupled from third-party-owned data, to ensure validity.

Which of the statements given above is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

(D) Company Assets — Registrar of Companies

May/June 2005

12. Consider the following statements regarding the protocols for exchanging credit information among participating lenders:

- I. Banks should incorporate suitable clauses in the loan agreements regarding the exchange of credit information to address confidentiality issues.
- II. Any sanction of fresh loans or ad hoc loans to existing borrowers should be done only after obtaining and sharing necessary information.
- III. Participating lenders are exempt from completing appraisals in a time-bound manner under multiple banking arrangements.

Which of the statements given above is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

Oct/Nov 2022

13. Match the items in List I with those in List II:
List I: Entities and Assets

- P. Companies creating a charge
- Q. Ships
- R. Aircrafts
- S. Mortgage charges (excluding Vahan vehicles)

List II: Registering Authorities

1. Mercantile Marine Department
2. CERSAI
3. Registrar of Companies
4. Director General of Civil Aviation

- (A) P-3, Q-1, R-4, S-2
- (B) P-1, Q-3, R-2, S-4
- (C) P-3, Q-4, R-1, S-2
- (D) P-2, Q-1, R-4, S-3

May/June 2018

14. A bank is considering sanctioning a fresh ad hoc loan to an existing corporate borrower who also banks with three other institutions. Before finalizing the sanction, the credit officer insists on obtaining a detailed report on the borrower's unhedged foreign currency exposures from the other banks. Is this action procedurally justified?

- (A) No, because foreign currency exposures are strictly confidential and exempt from inter-bank information exchange protocols.
- (B) Yes, because guidelines mandate information exchange covering derivatives and unhedged exposures.
- (C) No, because unhedged foreign currency exposures are only considered relevant for sole banking arrangements by regulators.
- (D) Yes, but only if the borrower has explicitly refused to provide a personal guarantee from its directors.

Oct/Nov 2016

15. In which of the following scenarios is an exception made where the personal guarantee of directors is NOT required?

- (A) When the company's financial position and capacity for cash generation are highly satisfactory.
- (B) When the borrowing company is closely held by connected persons not acting as professionals.
- (C) When there is interlocking of funds between the borrowing company and other group concerns.
- (D) When management is vested in persons by court or statutory order who are not required to be elected by shareholders.

May/June 2014

16. A massive infrastructure conglomerate requires a long-term loan of Rs. 5,000 crores to construct a new seaport. Recognizing that no single bank can absorb this exposure due to prudential limits, the conglomerate authorizes Bank Alpha to organize the necessary funding from a group of institutions. What specific document or authority has the conglomerate provided to Bank Alpha?

- (A) A Trust Receipt
- (B) A Constructive Possession Agreement
- (C) A Drawing Power Certification
- (D) A Mandate

Oct/Nov 2007

17. A bank sanctions a major credit facility to a company with strong existing management. The bank fears that a different group might subsequently acquire control of the company, placing the lent funds in jeopardy. What mechanism should the lending institution

data without any human feeding requirement.

Oct/Nov 2020

39. Assertion (A): Banks are advised to have a clear policy regarding the Debt Equity Ratio (DER) and maintain the stipulated level at all times during project execution.

Reason (R): Allowing promoters to bring in equity funds proportionately as the bank finances the debt poses a greater equity funding risk to the lending institution.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 (C) Assertion (A) is true, but Reason (R) is false.
 (D) Assertion (A) is false, but Reason (R) is true.

May/June 2022

40. Evaluate the following statements concerning the transformational impact of centralised processing and mechanisation in modern banking:

- I. The process model of new generation banks involved centralised processing to withstand pressures of biases.
- II. Centralised processing ensures absolute compliance with regulatory and internal guidelines.
- III. With the advent of the internet, geographic proximity to the borrower became a highly redundant factor in loan processing.
- IV. Mechanisation fundamentally prevents the scalability of customer bases due to strict algorithmic limitations.

Which of the statements given above are correct?

- (A) I, II, and III only
 (B) II, III, and IV only
 (C) I, III, and IV only
 (D) I, II, III, and IV

Oct/Nov 2023

41. A company is setting up a new manufacturing plant over a span of two years. The promoters propose that they will infuse 10% of their equity initially, and subsequently bring in

the remaining equity proportionately as the bank releases the loan instalments. The bank's credit committee rejects this specific sequence. Why would the committee reject this?

- (A) Because this method increases equity funding risk if promoters fail to provide later tranches.
 (B) Because proportionate infusion completely eliminates the bank's ability to monitor the Debt Equity Ratio accurately.
 (C) Because regulatory guidelines mandate that project loans must only be disbursed as cash credit limits by banks.
 (D) Because the promoters are legally prohibited from bringing equity in stages under multiple banking arrangements.

May/June 2016

42. What is the primary focus of credit appraisal before a bank disburses an advance to a prospective borrower?

- (A) Registering the charge over collateral securities with the central registry for legal compliance.
 (B) Borrower selection, credit needs assessment, and operational viability evaluation.
 (C) Formulating the structural framework for a consortium lending arrangement with multiple banks.
 (D) Automating the loan origination process through specialized software engines and digital tools.

Oct/Nov 2009

43. Which of the following formally characterizes a 'Consortium Arrangement' in the context of corporate lending?

- (A) A formal arrangement where two or more banks mutually finance a borrower's needs.
 (B) A borrower independently opens current accounts with multiple banks without their mutual knowledge or consent.
 (C) A single bank finances the entire working capital needs of a borrower using syndicated funds from abroad.
 (D) A borrower routes all financial transactions through a single cash credit account managed by the Reserve Bank.

authorized to provide these certifications based on their specialized expertise. Human Resource Managers, however, do not have a defined role in certifying financial compliance.

9. (A) The legal department of the bank must draft specific documents applicable to that particular case.

Standardized, printed loan documents are typically used for routine credit transactions. However, when a commercial bank extends a highly complex or non-standard credit facility with unique covenants and specialized collateral, standard forms may prove insufficient. In such instances, the bank's legal department must draft customized documents to accurately reflect the specific terms and protect the lender's interests.

10. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Sole banking becomes impractical when a borrower's financing needs exceed a single bank's internal exposure limits or risk appetite. To mitigate this concentration risk and comply with prudential norms, the primary lender often seeks to share the financial burden with other institutions. Consequently, transitioning to a consortium arrangement allows for the distribution of credit risk and funding requirements.

11. (A) Commercial Real Estate — Central Vigilance Commission

Various assets require registration with specific statutory authorities to establish a valid charge for the lender. Ships are registered with the Mercantile Marine Department, aircraft with the Director General of Civil Aviation, and company assets with the Registrar of Companies. The Central Vigilance Commission is an oversight body for corruption prevention and does not serve as a real estate registry.

12. (A) I and II only

Effective information exchange is vital in multiple banking to monitor borrower conduct. Lenders must include disclosure clauses in agreements to facilitate the sharing of credit data. Sanctioning fresh or ad hoc facilities should only occur after reviewing shared information from other banks.

However, participating lenders are not exempt from completing appraisals in a timely and professional manner.

13. (A) P-3, Q-1, R-4, S-2

Registering security interests involves different authorities based on the asset type. Companies creating a charge must register with the Registrar of Companies. Ships require registration with the Mercantile Marine Department, while aircraft fall under the Director General of Civil Aviation. Most mortgage charges, excluding vehicles on the Vahan portal, are registered with CERSAI to ensure priority of interest.

14. (B) Yes, because guidelines mandate information exchange covering derivatives and unhedged exposures.

Regulatory guidelines for multiple banking and consortium arrangements emphasize comprehensive information sharing among lenders. This exchange is not limited to outstanding loan balances but specifically extends to complex financial risks. Banks are required to share details regarding a borrower's derivative transactions and unhedged foreign currency exposures, as these factors significantly impact the borrower's overall creditworthiness.

15. (D) When management is vested in persons by court or statutory order who are not required to be elected by shareholders.

Banks generally insist on personal guarantees from directors to ensure commitment and management continuity. However, certain exceptions apply where such guarantees are not mandatory. One such scenario occurs when the management of the borrowing company is appointed through a court order or statutory requirement. In these cases, the individuals are not traditional elected directors representing shareholder interests.

16. (D) A Mandate

When a corporate borrower requires a large credit facility that exceeds the capacity of a single institution, it authorizes a specific bank to organize the funding. This formal authorization is known as a mandate. The mandate empowers the lead bank to approach other financial institutions, share project

Which of the following is correct?

- (A) Both Statement I and Statement II are true.
- (B) Both Statement I and Statement II are false.
- (C) Statement I is true and Statement II is false.
- (D) Statement I is false and Statement II is true.

May/June 2019

50. Consider the following statements regarding the registration of security interests and mortgage charges:

- I. All security interests, except charges on vehicles appearing in the Vahan site, must be registered with CERSAI.
- II. Secured creditors are entitled to enforce securities under the SARFAESI Act even if the interest is not filed with CERSAI.
- III. Charges over certain specific assets require additional registration with authorities such as the Director General of Civil Aviation.

Which of the statements given above is/are correct?

- (A) I and II only
- (B) I and III only
- (C) II and III only
- (D) I, II, and III

Oct/Nov 2006

51. Evaluate the following two statements regarding the capacity and authority of parties executing bank documents:

Statement I: A partner in a partnership firm must sign the loan documents in her individual capacity to bind the firm.

Statement II: The bank must ensure that the parties executing the documents have the necessary capacity to enter into a contract.

Which of the following is correct?

- (A) Both Statement I and Statement II are true.
- (B) Both Statement I and Statement II are false.
- (C) Statement I is true and Statement II is false.
- (D) Statement I is false and Statement II is true.

May/June 2021

52. Arrange the following actions involved in the syndication of a large loan in their correct chronological sequence:

- I. Participating banks appraise the proposal as per their policies and risk appetite.
- II. Lead bank does the liaison work and common terms are agreed upon in a meeting.
- III. Borrower intending to avail the desired amount gives a mandate to the lead bank.
- IV. Lead bank approaches various banks with the details of the loan requirement.

- (A) III, IV, I, II
- (B) IV, III, I, II
- (C) III, I, IV, II
- (D) I, III, IV, II

Oct/Nov 2010

53. Evaluate the following two statements regarding the interlocking of funds and third-party guarantees:

Statement I: Personal guarantees are highly relevant where the financial statements disclose an interlocking of funds between the borrowing company and other concerns managed by the same group.

Statement II: Bank's inspectors are strictly prohibited from verifying compliance with the stipulation that no consideration is paid to guarantors.

Which of the following is correct?

- (A) Both Statement I and Statement II are true.
- (B) Both Statement I and Statement II are false.
- (C) Statement I is true and Statement II is false.
- (D) Statement I is false and Statement II is true.

May/June 2005

54. Identify the incorrect statement regarding the stipulation of third-party guarantees by banks.

- (A) Third parties offering guarantees can be individuals or any other legal entity.
- (B) Promoters and directors of companies do not have unlimited liability towards the bank's dues.
- (C) The personal guarantee of a proprietor must always be stipulated as an additional safety measure.

mitigate risks in liquidity management.

- (B) To bypass the requirement of obtaining monthly stock and book-debt statements from the borrower.
- (C) To legally prevent the borrower from opening any current accounts with other banking institutions nearby.
- (D) To automatically convert all current assets into fixed assets at the end of the financial year.

Oct/Nov 2013

77. When developing an effective STP software, specific parameters must be meticulously integrated. Which of the following is NOT a necessary condition or requirement for successful STP implementation?
- (A) Software developer must have an in-depth idea of what the lender-user needs the software to do for business.
 - (B) Software must require manual identity verification via physical Aadhaar documents.
 - (C) Specific parameters of the lender's loan policy must be duly captured and coded within the software rules.
 - (D) Software must possess the capability to switch from one type of loan to another with the desired output format.

May/June 2015

78. Consider the following statements detailing the methodologies banks adopt to determine the sequence of infusing promoters' equity in project financing:
- I. Promoters bring their entire contribution upfront before the bank starts disbursing its commitment.
 - II. Promoters bring a certain percentage of their equity (40–50%) upfront and the balance is brought in stages.
 - III. Promoters agree, ab initio, that they will bring in equity funds proportionately as the banks finance the debt portion.
 - IV. Methodology involving proportionate equity infusion carries the lowest equity funding risk for the bank.
 - V. Banks are advised to adopt funding sequences that obviate the possibility of equity funding by banks.
- Which of the statements given above are

correct?

- (A) I, II, III, and V only
- (B) I, II, III, and IV only
- (C) II, III, IV, and V only
- (D) I, III, IV, and V only

Oct/Nov 2012

79. Consider the following statements regarding the integration and operational reality of Credit Underwriting Engines (CUE):
- I. Error-free coding of the algorithm represents only one side of the operational success of an STP system.
 - II. User's profound understanding of the software is irrelevant if the backend coding is structurally perfect.
 - III. If done correctly, STP serves as an end-to-end solution for the error-free judgement of credit propositions.
- Which of the statements given above is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

May/June 2011

80. Evaluate the following two statements regarding the disbursement methods of different types of loans:
- Statement I: In exceptional cases like personal or consumption loans, the loan amount may be directly credited to the account of the customer with the bank.
- Statement II: In cases where the execution of a project is spread over a period of time, the disbursement of the term loan is normally made in a single upfront payment.
- Which of the following is correct?
- (A) Both Statement I and Statement II are true.
 - (B) Both Statement I and Statement II are false.
 - (C) Statement I is true and Statement II is false.
 - (D) Statement I is false and Statement II is true.

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companies rated as first-class.

- (D) When there is a planned interim period between loan disbursement and charge creation.

Oct/Nov 2019

61. Match the items in List I with those in List II:

List I: Operational Aspects of STP

P. Identity Verification

Q. Elimination of biases

R. Recasting Profit & Loss

S. Reduced turn-around time

List II: Mechanisms or Outcomes

1. Integration with UIDAI/Aadhaar

2. Rule-based automation and coding

3. Scanning and uploading account statements of other lenders

4. Minuscule human intervention

(A) P-1, Q-2, R-3, S-4

(B) P-3, Q-1, R-4, S-2

(C) P-2, Q-4, R-1, S-3

(D) P-1, Q-3, R-2, S-4

May/June 2009

62. Evaluate the following two statements regarding the disbursal methods of different types of loans:

Statement I: In exceptional cases like personal or consumption loans, the loan amount may be directly credited to the account of the customer with the bank.

Statement II: In cases where the execution of a project is spread over a period of time, the disbursement of the term loan is normally made in a single upfront payment.

Which of the following is correct?

(A) Both Statement I and Statement II are true.

(B) Both Statement I and Statement II are false.

(C) Statement I is true and Statement II is false.

(D) Statement I is false and Statement II is true.

Oct/Nov 2011

63. A private bank employs an advanced STP software for assessing joint lending proposals. During the automated scanning of a prospective borrower's account statements from other lenders, the system identifies multiple high-value transfers that merely cycle funds between

associated shell companies without underlying trade. How will the STP system handle these specific entries?

(A) It will aggregate them to artificially inflate the borrower's drawing power limit for the current quarter.

(B) It will automatically approve the loan due to the high volume of cash turnover reflected in the bank statements.

(C) It will flag them for manual verification by the Consortium Lead Bank only before final credit approval.

(D) It will discard round-about entries and recast the balance sheet correctly.

May/June 2010

64. Which of the following is a recognized method of creating a charge over securities for a bank loan?

(A) Securitisation

(B) Amortisation

(C) Syndication

(D) Hypothecation

Oct/Nov 2024

65. Consider the following parameters utilized in the programming algorithms of Machine Lending:

I. Quantitative factors such as applied amount, assessed amount, and loan-to-value ratio.

II. Qualitative aspects converted into quantities, such as credit scores and macro-economic conditions.

III. Static rules that permanently lock the parameterisation without allowing any user-end flexibility.

IV. Analytical evaluations of industry and business environments.

Which of the statements given above represent valid and adaptable components of Machine Lending?

(A) I, II, and IV only

(B) I, III, and IV only

(C) II, III, and IV only

(D) I, II, III, and IV

May/June 2017

66. How does the nature of possession differ between the traditional 'Lock and Key' method and 'Hypothecation'?

(A) In Lock and Key, the borrower holds the

May/June 2023

44. What is the fundamental legal purpose of obtaining signatures from borrowers and guarantors on loan documentation?
- (A) To generate an automated credit score for future reference
 - (B) To determine the appropriate interest rate and repayment tenure
 - (C) To establish the liability of the executing parties in a court of law
 - (D) To ensure compliance with the internal audit policies of the bank

Oct/Nov 2018

45. Consider the following statements regarding regulatory guidelines introduced to strengthen information back-up in multiple banking arrangements:
- I. Banks must obtain a declaration from borrowers about credit facilities already enjoyed from other banks.
 - II. Banks should exchange information about the conduct of borrowers' accounts at least at quarterly intervals.
 - III. The information exchanged must include details on borrowers' derivative transactions and unhedged foreign currency exposures.
 - IV. The guidelines strictly prohibit the use of credit reports from Credit Information Companies to maintain borrower confidentiality.
- Which of the combinations of statements is correct?
- (A) I, II, and III only
 - (B) II, III, and IV only
 - (C) I, III, and IV only
 - (D) I, II, and IV only

May/June 2007

46. The credit officer must ensure several critical points in connection with the execution of documents. Which of the following is NOT one of those mandatory points?
- (A) The documents must be properly stamped as per legal requirements.
 - (B) The person signing the documents must be doing so of their own free will.
 - (C) The documents must be left blank at the time of signing to allow subsequent additions.
 - (D) The date and place of execution must be

properly mentioned in the documents.

Oct/Nov 2025

47. Identify the correct pair regarding the procedural actions and their prescribed frequencies under multiple banking guidelines.
- (A) Obtaining declaration of existing credit facilities — At least at quarterly intervals
 - (B) Exchanging information about the conduct of accounts — At the time of granting fresh facilities
 - (C) Obtaining regular certification regarding statutory compliance — Exclusively at the time of loan closure
 - (D) Exchanging information about the conduct of accounts — At least at quarterly intervals

May/June 2012

48. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):
- Assertion (A): If the owner of a collateral security is someone other than the primary borrower, that owner must first become a guarantor of the loan.
- Reason (R): Only the rightful owner of an asset possesses the legal authority to create a valid charge over that specific security.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2014

49. Evaluate the following two statements differentiating the operational structures of lending arrangements:
- Statement I: In a consortium arrangement, there is a formal agreement between two or more banks to finance the working capital needs of a borrower.
- Statement II: In multiple banking arrangements, there is a strict, formal legal agreement binding all participating banks to share equal risk.

- (B) Personal loans are simple, while commercial lending intricacies demand nuanced analysis and varied norms.
- (C) Commercial lending requires mandatory syndication which is fundamentally incompatible with most automated STP interfaces.
- (D) Commercial borrowers are legally barred from linking their accounts with the Unique Identification Authority of India.

May/June 2024

- 72.** Consider the following statements regarding the management of Working Capital Loans (WCLs) and cash credit limits:
- I. Banks have the discretion to stipulate the repayment of WCLs either in instalments or by way of a “bullet” repayment.
 - II. Banks may consider the rollover of WCLs at the request of the borrower, subject to compliance with extant IRAC norms.
 - III. The undrawn portion of cash credit limits sanctioned to large borrowers attracts a credit conversion factor of 20 per cent.
- Which of the statements given above is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

Oct/Nov 2008

- 73.** Evaluate the following statements comparing structured lending and commercial lending in the context of Straight-Through Processing (STP):
- I. It is generally easier to develop STP for structured lending like personal segment loans due to fewer complexities.
 - II. Intricacies of commercial lending decisions often demand human intervention in one way or the other.
 - III. Ratio analysis serves as a critical appraisal tool in commercial lending, utilizing numerous financial ratios.
 - IV. Almost all numerical parameters in commercial lending, from exposure norms to viability indicators, can be programmed.
- Which of the statements given above are correct?
- (A) I, II, and III only

- (B) I, III, and IV only
- (C) II, III, and IV only
- (D) I, II, III, and IV

May/June 2006

- 74.** Identify the incorrect statement regarding the bifurcation of working capital limits into loan and cash credit components.
- (A) Banks have the freedom to change the composition by increasing the loan component beyond 60 per cent.
 - (B) The bifurcation shall be effected before excluding the export credit limits and bills limit for inland sales.
 - (C) Amount and tenor of the loan component may be fixed by banks in consultation with the borrowers.
 - (D) Investment by the bank in commercial papers issued by the borrower shall form part of the loan component.

Oct/Nov 2017

- 75.** Consider the following statements illustrating the overarching benefits and challenges of mechanising the lending process:
- I. Centralised processing ensures uniformity in approach, sanction processes, and post-sanction documentation.
 - II. Straight-Through Processing gets rid of multiple times of keying in data and duplication of verifications.
 - III. Mechanisation inherently increases overhead expenditure while slightly decreasing the business volume.
 - IV. Synchronisation of STP software with the core banking solution is difficult but inevitable to avoid system conflicts.
 - V. STP is considered an absolute panacea for all lending-related problems, regardless of data quality.
- Which of the combinations of statements is correct?
- (A) I, II, and IV only
 - (B) I, II, III, and V only
 - (C) II, III, and IV only
 - (D) I, IV, and V only

May/June 2008

- 76.** What is the primary rationale for requiring banks to disburse a portion of working capital as a ‘Loan’ rather than solely as ‘Cash Credit’?
- (A) To ensure stable fund utilization and

NODIA

- (D) Personal guarantees are used to make persons owning a borrower-entity jointly and severally liable.

Oct/Nov 2022

55. Identify the correct statement regarding financial compensation mechanisms in a loan syndication.

- (A) Participating banks are required to pay a syndication fee to the borrower.
- (B) Normally, the lead bank charges a 'Syndication fee' from the borrower for arranging the loan.
- (C) The regulatory authority dictates a standardized syndication fee applicable uniformly across all corporate loans.
- (D) The syndication fee is deducted entirely from the promoters' equity contribution.

May/June 2018

56. Consider the following situations regarding the relevance of personal guarantees of directors:

- I. When the balance sheet discloses an interlocking of funds between concerns owned by the same group.
- II. When public limited companies are not rated as first-class and the advance is on an unsecured basis.
- III. When there is likely to be a considerable delay in the creation of a charge on the company's assets.
- IV. When a company is not closely held, but a guarantee is required to ensure continuity of management.

Which of the combinations correctly represents situations justifying the stipulation of personal guarantees?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, III, and IV

Oct/Nov 2016

57. Which of the following best defines the core essence of Straight-Through Processing (STP)?

- (A) Automating the entire loan cycle from application to disbursement with minimal manual interference.
- (B) Manual verification of ownership documents by multiple tiers of credit officers to prevent potential fraud.

- (C) Physical inspection of collateral assets to determine accurate loan-to-value ratios for the lending bank.

- (D) Legal procedure for recovering bad debts through the central registry of securitisation.

May/June 2014

58. In the context of financing corporate entities, which of the following is the most appropriate reason for a bank to obtain the guarantee of a parent company?

- (A) To facilitate the subsequent syndication of the loan among multiple banking partners.
- (B) To secure the advance when the subsidiary's own financial condition is not considered satisfactory.
- (C) To ensure the timely submission of monthly stock statements and book-debt records.
- (D) To bypass the requirement of registering the security interests with the Registrar of Companies.

Oct/Nov 2007

59. Identify the incorrect statement regarding the application and relevance of STP in the loan origination process.

- (A) Functionality of STP is rigidly static and cannot be parameterized to switch from one type of loan to another.
- (B) STP was initially utilized primarily for personal loans before expanding to MSME and commercial lending.
- (C) First stepping stone for automation is a thorough synchronisation between the maker and the user software.
- (D) Different loans may have different sets of rules which need to be successfully coded into a single software.

May/June 2025

60. According to regulatory guidelines, in which of the following cases is it generally NOT deemed necessary or appropriate to stipulate a personal guarantee?

- (A) During the formative stages of a new company to ensure management continuity.
- (B) When a company's financial position is unsatisfactory despite the advances being secured.
- (C) When securing advances for public limited

ANSWERS

1. (B) Wrong data entry causes a chain of bad output as subsequent results depend on initial input.

Straight-through processing systems rely heavily on the accuracy of initial data inputs to function effectively. This fundamental principle implies that any incorrect information entered by operating staff inevitably leads to flawed automated decisions. Since the software executes predefined rules based on the provided values, erroneous liability data results in inaccurate risk scoring and increased application rejections.

2. (C) Securing short-term loans from other banks to cover equity until the project is operational. Recognized methodologies for infusing promoters' equity include upfront contribution of the entire amount or a substantial percentage before debt disbursement. Alternatively, promoters may agree to bring in funds proportionately alongside the debt. Obtaining short-term bank loans to substitute for equity is not a recognized method, as equity must represent the promoters' own long-term financial commitment.

3. (A) Within 30 days

Regulatory and legal frameworks require that any charge created over a company's securities or assets must be formally registered to ensure public notice and priority. The statutory period for registering such a charge with the Registrar of Companies is thirty days from the date of document execution. Timely registration is essential for the bank to maintain its secured status.

4. (D) Arranging member meetings and leading the assessment, documentation, and charge creation.

In a consortium lending arrangement, the lead bank acts as the primary coordinator for all participating lenders. Its responsibilities encompass organizing meetings among member banks to discuss credit terms and performing the detailed appraisal of the proposal. Furthermore,

the lead bank oversees the execution of legal documentation and ensures the proper creation of security charges for the group.

5. (D) The date of execution of documents should never be earlier than the date of stamping.

Legal validity of loan documents depends on adhering to strict stamping and execution protocols. According to stamp duty regulations, documents must be properly stamped before or at the time of signing. Executing a document on a date prior to the date on the stamp paper renders it legally defective and potentially inadmissible as evidence in court proceedings.

6. (C) High fraud incidence due to ineffective sharing of credit history and account conduct.

The Central Vigilance Commission expressed serious concerns regarding the rising number of financial frauds involving large credit facilities. These incidents often occurred because banks in multiple or consortium arrangements failed to share critical information about borrower account conduct. Strengthening guidelines ensures that lenders exchange credit history and account data regularly to identify and prevent potential fraudulent activities.

7. (B) III, I, IV, II

Creating a legally valid security interest involves a specific logical sequence of actions to ensure compliance and priority. First, the legal documents must be properly stamped as per duty requirements. Subsequently, the relevant parties execute the documents by signing them. For corporate borrowers, the charge is then registered with the Registrar of Companies, followed by registration with CERSAI.

8. (A) Human Resource Manager — Obtaining regular certification regarding compliance

Under multiple banking arrangements, banks are required to obtain regular certifications to ensure that borrowers comply with statutory and regulatory prescriptions. Professionals such as Company Secretaries, Chartered Accountants, and Cost Accountants are

goods as an agent; in Hypothecation, the bank sells the goods immediately.

- (B) In Lock and Key, the charge must be registered with CERSAI; in Hypothecation, no legal registration is required.
- (C) In Lock and Key, the bank holds the keys of the godown; in Hypothecation, possession remains with the borrower.
- (D) In Lock and Key, the borrower can freely sell the goods; in Hypothecation, the goods are strictly quarantined.

Oct/Nov 2005

67. During a loan appraisal, an assessing officer looks at a borrower's credit history and, despite a few minor delays in repayment years ago, is inclined to mark the track record as "satisfactory" due to a positive personal interaction. Conversely, an STP system evaluating the exact same profile cross-references Credit Information Company reports, bank statements, and deep transaction analysis. What fundamental flaw in manual processing does the STP system overcome in this scenario?

- (A) Reliance on personal bias and judgemental omission of factual risk indicators.
- (B) Inability to manually calculate the Debt Equity Ratio.
- (C) Failure to physically inspect the collateral assets.
- (D) Tendency to bypass the Registrar of Companies for charge registration.

May/June 2020

68. Match the items in List I with those in List II:
List I: Security Possession Methods

- P. Lock and Key
Q. Hypothecation
R. Pledge
S. Trust Receipt

List II: Defining Traits

1. Possession of the inventory remains entirely with the borrower
 2. A method allowing the borrower to access goods for sale before the account is settled
 3. Bank holds the keys to the godown where goods are kept
 4. Lender takes physical or constructive possession of the securities
- (A) P-3, Q-1, R-4, S-2

(B) P-1, Q-2, R-3, S-4

(C) P-4, Q-3, R-1, S-2

(D) P-3, Q-4, R-2, S-1

Oct/Nov 2015

69. Match the items in List I with those in List II:
List I: Mechanized Loan Processing Terminology

- P. Machine Lending
Q. Omissions and Commissions
R. Credit Underwriting Engine
S. Synchronisation

List II: Descriptions

1. Intentional or unintentional errors stemming from human bias in decision making
2. Alternative nomenclature for Straight-Through Processing systems
3. Full reliance on coded algorithms based on a defined set of parameters or rules
4. Thorough alignment between the software maker's capabilities and the user's policy needs

(A) P-3, Q-1, R-2, S-4

(B) P-2, Q-3, R-4, S-1

(C) P-3, Q-2, R-1, S-4

(D) P-4, Q-1, R-3, S-2

May/June 2013

70. In the context of working capital loans, what does the term 'Drawing Power' (DP) represent?

- (A) The maximum limit up to which a borrower is permitted to issue commercial papers in the open market.
- (B) The total net worth of the borrower minus the current liabilities as per the latest balance sheet.
- (C) The regulated limit within the cash credit limit, based on margins and current assets.
- (D) The aggregate amount of syndication fees a lead bank can draw from participating banks.

Oct/Nov 2021

71. Which of the following best describes the discrepancy between retail loans (like home or car loans) and commercial lending in the context of automated processing?

- (A) Commercial lending strictly prohibits the use of Credit Information Company reports for assessing corporate creditworthiness.

details, and negotiate terms to form a syndicate or consortium for the loan.

17. (B) Obtain director guarantees to ensure management continuity or consent for changes. Lending institutions often face risks from potential changes in a borrower's corporate management which might adversely affect loan repayment. To safeguard their interests, banks may stipulate personal guarantees from existing directors. This mechanism ensures that the current management remains committed to the project or that the bank's consent is required before any significant transfer of control occurs.
18. (A) III, V, II, I, IV
Loan processing evolved from manual methods in the 1980s to modern automation. Following 1991 reforms, new private sector banks emerged, focusing on retail segments. The growth of the internet then allowed for centralized processing independent of physical location. Finally, the banking industry implemented fully automated straight-through processing engines to achieve rapid, end-to-end loan origination and evaluation with minimal human intervention.
19. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Banks normally prohibit borrowing companies from paying commission to directors or third parties for providing personal guarantees. This policy ensures that the guarantee reflects a genuine commitment rather than a commercial transaction. While exceptions exist for ailing units where obtaining new guarantees is essential for survival, this exception does not explain the general rationale for the overarching regulatory prohibition.
20. (D) Syndication mandate risks
Straight-through processing integration aims to mitigate various financial and operational risks through automated rule-based analysis. It effectively addresses exchange risks, management risks, and default risks by evaluating borrower data against predefined parameters. While it streamlines the appraisal process, it is not typically designed to manage the strategic or relationship-based risks associated specifically with obtaining a syndication mandate.

21. (D) The bank may permit the payment of remuneration since the concern is not doing well and the continuance of guarantees is essential. Although banks generally discourage the payment of guarantee commissions, regulatory guidelines allow for flexibility in distressed situations. If an industrial unit is ailing and the involvement of professional management or new guarantors is crucial for its revival, the bank may permit remuneration. This exception is granted because securing continued financial support and management commitment is vital for the unit's rehabilitation.
22. (A) I, II, IV, and V only
Modern straight-through processing systems utilize sophisticated technologies like Big Data and Artificial Intelligence to enhance credit evaluation. These systems integrate with external risk databases and Credit Information Companies to analyze borrower behavior. Crucially, they can identify and eliminate round-about fund transfers to recast profit and loss accounts accurately. They do not, however, intentionally discard genuine trade transactions during evaluation.
23. (B) Only the owner of an asset can create a charge over it.
A fundamental legal principle in banking and property law states that only the rightful owner of an asset has the authority to pledge it as security. If a third party intends to offer their property as collateral for a borrower's loan, they must first agree to become a guarantor. This legal link enables the owner to validly create the charge.
24. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Rule-based automation in credit processing significantly reduces human error and subjectivity in lending decisions. Manual appraisals are often susceptible to judgmental biases and personal perceptions, which can lead to unintentional omissions of risk factors. By applying objective parameters through straight-through processing, financial institutions ensure a more consistent, neutral, and data-driven evaluation of every credit application.

41. (A) Because this method increases equity funding risk if promoters fail to provide later tranches.

Project finance involves significant long-term risks, and the timing of equity infusion is a critical safeguard for lenders. If promoters only bring in equity funds proportionately as the bank releases loan installments, the bank's exposure increases while the promoters' relative commitment remains low. This sequence poses a high equity funding risk, as promoters might fail to provide later contributions.

42. (B) Borrower selection, credit needs assessment, and operational viability evaluation.

Before any credit facility is disbursed, the lending bank must perform a rigorous credit appraisal. This process focuses on selecting a creditworthy borrower and accurately determining their actual financial requirements. Additionally, the bank evaluates the operational and technical viability of the borrower's business or project to ensure that the generated cash flows will be sufficient to service and repay debt.

43. (A) A formal arrangement where two or more banks mutually finance a borrower's needs.

A consortium arrangement is a structured method of lending where a group of banks joins together to meet the large-scale credit requirements of a single borrower. Unlike multiple banking, where a borrower deals with different banks independently, a consortium involves a formal agreement and coordinated assessment. This collaboration allows participating banks to share risks and pool resources under common terms.

44. (C) To establish the liability of the executing parties in a court of law.

Obtaining signatures on loan documentation is a vital legal requirement for banks. The primary purpose is to create a binding contract between the lender and the borrower or guarantor. In the event of a default or dispute, these signed documents serve as conclusive evidence in a court of law to establish the legal liability of the parties for repayment.

45. (A) I, II, and III only

To prevent frauds in multiple banking, regulators mandate that borrowers declare

all existing credit facilities. Participating banks are required to exchange information regarding account conduct at least quarterly. This exchange must cover specialized risks like derivative transactions and unhedged foreign currency exposures. Banks are also encouraged to use data from Credit Information Companies to supplement their internal assessments and verify borrower claims.

46. (C) The documents must be left blank at the time of signing to allow subsequent additions.

During the execution of loan documents, credit officers must ensure several legal safeguards. The documents must be properly stamped, signed voluntarily, and include the correct date and place of execution. Crucially, documents should never be signed in blank or with missing details. Leaving portions blank at the time of signing can lead to legal disputes and renders documents potentially unenforceable.

47. (D) Exchanging information about the conduct of accounts — At least at quarterly intervals.

Strengthening credit discipline in multiple banking arrangements requires consistent communication between lenders. Regulatory guidelines specify that participating banks should exchange detailed information regarding the conduct of a borrower's account at least once every quarter. While declarations of existing facilities are obtained during the initial application, the periodic exchange of account behavior is essential for ongoing risk monitoring and fraud prevention.

48. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

To create a valid legal charge over collateral, the person executing the charge must have legal ownership of the asset. When a borrower offers security owned by a third party, that third party must first enter into a guarantee agreement. By becoming a guarantor, the owner establishes a legal connection to the loan, which then authorizes them to validly pledge their property.

33. (B) 60 per cent

To improve liquidity management and ensure disciplined fund utilization among large borrowers, regulatory guidelines mandate the bifurcation of working capital limits. For corporate borrowers with significant aggregate limits, a minimum of sixty percent of the sanctioned working capital limit must be disbursed as a loan component. The remaining portion is provided as a fluctuating cash credit facility to meet operational needs.

34. (A) P-3, Q-4, R-1, S-2

Straight-through processing utilizes various data variables for efficient credit decisions. Aadhaar numbers facilitate rapid electronic identity verification via UIDAI. The EMI/NMI ratio serves as a vital quantitative metric in retail lending appraisals. True transaction data analysis allows the system to recast financial statements by identifying circular fund transfers. Rule-based automation ensures consistent evaluation by removing human judgmental biases.

35. (A) Not less than seven days

When a bank splits a working capital limit into a loan component and a cash credit component, specific rules apply to the loan portion. Regulatory guidelines require that the loan component must have a defined minimum tenor. This minimum period is prescribed as not less than seven days, allowing banks and borrowers flexibility in managing short-term operational funding requirements effectively.

36. (D) Adapting and utilizing STP infrastructure for MSME and other commercial lending.

While straight-through processing was initially popularized for simple retail loans, its benefits of speed and uniformity are equally valuable for commercial segments. Banks aiming to scale their portfolio can strategically adapt their existing retail automation infrastructure to handle MSME and commercial lending. This involves coding more complex rules and financial ratios into the engine to handle business appraisal intricacies.

37. (D) The bank considers this payment to be a part of the customer's required contribution (margin).

In retail term lending, the borrower is expected to contribute a specific percentage of the purchase price, known as the margin. If a customer provides verifiable evidence of having already made a direct advance payment to the builder or seller, the bank recognizes this amount. It is treated as a component of the borrower's total required equity contribution for the transaction.

38. (C) Every subsequent result is based on initial data, so wrong data causes bad output.

The efficiency of any automated credit underwriting engine is fundamentally constrained by the quality of the data it processes. Even with perfectly coded algorithms and high-speed hardware, the system cannot correct fundamentally incorrect initial inputs. If erroneous borrower information is fed into the system, all subsequent risk assessments will be flawed, demonstrating the "garbage in, garbage out" principle.

39. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Maintaining a healthy debt-equity ratio is crucial throughout the lifecycle of a project. Banks prefer promoters to infuse their equity upfront or in substantial initial stages to ensure they have significant investment commitment. If promoters provide funds only proportionately as debt is released, the bank faces a higher risk that the project might stall if subsequent equity is not forthcoming.

40. (A) I, II, and III only

Centralized processing has transformed modern banking by ensuring uniformity in credit sanctions and minimizing regional biases. This model facilitates strict compliance with internal and regulatory guidelines through standardized workflows. Furthermore, the advent of internet-based processing has made a borrower's physical proximity to the bank office largely irrelevant. Mechanization actually enhances scalability by allowing banks to process applications rapidly through consistent algorithms.

a specific procedure. Banks have flexibility to increase the loan portion beyond the minimum requirement and set appropriate tenors. Importantly, certain facilities like export credit and inland bill limits are excluded from this mandatory bifurcation. The calculation to split the limit is performed after exclusions.

75. (A) I, II, and IV only

Centralized processing and mechanization provide significant advantages, including uniformity in sanctions and the elimination of redundant data entry. While synchronizing automated software with a bank's core banking solution is technically challenging, it is necessary to prevent system conflicts. Although automation improves efficiency and scalability, it is not a panacea; its success remains dependent on the quality of data processed.

76. (A) To ensure stable fund utilization and mitigate risks in liquidity management.

Mandating a loan component within working capital limits is designed to improve financial discipline. Unlike fluctuating cash credit, a loan represents a more stable and predictable use of funds. This structure helps banks manage their overall liquidity more effectively and reduces the volatility of their assets. It also encourages large corporate borrowers to better plan their operational requirements.

77. (B) Software must require manual identity verification via physical Aadhaar documents.

A successful straight-through processing system must be built on a deep understanding of the lender's business needs and policy parameters. The software needs to be flexible enough to handle different loan types and deliver specific output formats. While identity verification is essential, modern STP systems aim for electronic integration, such as digital Aadhaar verification, rather than physical document checks.

78. (A) I, II, III, and V only

Banks use various methodologies to manage the sequence of equity infusion in project finance. These include requiring the entire contribution upfront or bringing in substantial portions in stages. Promoters might also agree to infuse funds proportionately with debt. However,

proportionate infusion is considered riskier. Banks are generally advised to prioritize funding sequences that ensure the promoters' commitment is established early.

79. (C) I and III only

Operational success in automated credit processing depends on both flawless algorithmic coding and a deep understanding of the software by its users. When these elements are combined, straight-through processing can offer a comprehensive, end-to-end solution for evaluating credit propositions without human error. A user's understanding is never irrelevant, as they must accurately parameterize the system to ensure results.

80. (C) Statement I is true and Statement II is false.

The method of loan disbursement depends on the specific credit product. Personal or consumption loans are often disbursed in a single credit to the borrower's account. However, for term loans used in project execution, disbursement is typically spread over a period. Staged releases ensure that funds are utilized for the intended purpose as the project progresses, rather than upfront.

- 49.** (C) Statement I is true and Statement II is false.

In a consortium arrangement, participating banks enter into a formal, structured agreement to jointly finance a borrower's needs under common terms. Conversely, multiple banking arrangements are less formal; each bank typically operates independently with the borrower without a single binding legal agreement between all lenders. While information sharing is mandated in multiple banking, it lacks the formal collective contract.

- 50.** (B) I and III only

Centralized registration of security interests is mandatory for most assets to ensure priority and legal protection. Charges on aircraft and ships require additional registration with the DGCA and Mercantile Marine Department, respectively. While most mortgages must be filed with CERSAI, a secured creditor cannot enforce its rights under the SARFAESI Act unless the security interest has been duly registered.

- 51.** (D) Statement I is false and Statement II is true.

When executing bank documents, the bank must verify that the parties have the legal capacity to contract. In the case of a partnership, a partner does not sign in their individual capacity but rather in their capacity as a partner to legally bind the entire firm to the obligation. Signing individually would fail to create a valid charge against partnership assets.

- 52.** (A) III, IV, I, II

Loan syndication follows a structured chronological process. It begins when the borrower provides a formal mandate to a lead bank to arrange funds. The lead bank then approaches other financial institutions with the loan proposal. Each participating bank independently appraises the proposal based on its policies. Finally, the lead bank coordinates common terms and conditions during joint meetings.

- 53.** (C) Statement I is true and Statement II is false.

Personal guarantees are essential when there is an interlocking of funds between the borrower

and other group concerns to prevent siphoning of capital. Contrary to the idea of prohibition, bank inspectors are responsible for verifying that the borrower has complied with all loan stipulations, including the requirement that no commission is paid to the directors for providing these guarantees.

- 54.** (C) The personal guarantee of a proprietor must always be stipulated as an additional safety measure.

Banks use third-party guarantees to ensure that those who own or control a borrowing company are held personally liable for debt. This is important for corporate entities where liability is otherwise limited. However, in a proprietorship, the owner and the business are already the same legal entity. Therefore, requiring a personal guarantee from the proprietor is redundant for legal safety.

- 55.** (B) Normally, the lead bank charges a 'Syndication fee' from the borrower for arranging the loan.

Arranging a syndicated loan involves significant administrative and liaison work by the lead bank. As compensation for these services, which include approaching other banks and negotiating common terms, the lead bank typically charges the borrower a specialized syndication fee. This fee is separate from interest rates and is intended to cover the costs associated with organizing large-scale financing.

- 56.** (D) I, II, III, and IV

Banks stipulate personal guarantees in various situations to safeguard their interests. These include cases of interlocking funds between group companies, advances to public limited companies that are not top-rated, and scenarios where there is a delay in creating a charge on assets. Guarantees are also required to ensure management continuity in companies that are not closely held, providing extra commitment.

- 57.** (A) Automating the entire loan cycle from application to disbursement with minimal manual interference.

Straight-through processing is a mechanized approach designed to streamline the loan origination and management cycle. It uses rule-based algorithms to evaluate applications, assess

25. (A) Pledge — The bank takes physical or constructive possession of the security. Different methods exist for creating a charge over movable assets. In a pledge, the borrower transfers physical or constructive possession of the securities to the bank, while retaining ownership. This differs from hypothecation, where the borrower maintains possession of the goods. Effective pledges require the lender to have control over the assets to ensure they are available for recovery if needed.

26. (B) The programming should allow parameterisation flexibility at the user-end with due authorization.

Financial environments are dynamic, necessitating adaptable automated systems. To handle sudden macro-economic shifts, straight-through processing architecture should not be rigidly coded. Instead, the software should allow authorized users to adjust specific parameters and rules at the front end. This flexibility enables the bank to respond to changing risks and sectoral trends without requiring a complete rewrite of core software.

27. (A) The borrower has to deposit the money in her cash credit account or provide a trust receipt before goods are delivered.

Under the 'Lock and Key' method of inventory financing, the bank maintains physical control over the borrower's goods in a secured godown. To withdraw items for sale or production, the borrower must first reduce the outstanding loan balance by depositing equivalent funds. Alternatively, the bank may release goods against a trust receipt, where the borrower holds them as agent.

28. (C) Lenders access risk databases for decisions and feed appraisal data back into the pool.

The relationship between lenders and Credit Information Companies is characterized by a continuous, bidirectional flow of data. Within an automated processing framework, banks access extensive risk databases to evaluate a borrower's credit history and economic behavior. In return, lenders contribute their own appraisal and repayment data back to the collective pool, ensuring that the credit ecosystem remains updated.

29. (B) Constructive Possession

In inventory financing, the bank may not always maintain physical custody of the goods due to operational needs. Constructive possession occurs when the borrower holds the inventory on behalf of the bank as its agent or bailee. This legal arrangement ensures the bank's charge remains valid while allowing the manufacturer to access raw materials or finished products necessary for business.

30. (C) The dynamic nature of the environments requires parameterisation to have dependence on the programmer at every moment without user-end flexibility.

Automation in credit processing effectively reduces both unintentional errors and intentional frauds by applying consistent rules. While software minimizes omissions through comprehensive data analysis, it must remain adaptable to changing economic environments. Modern systems should allow for user-end parameterisation flexibility under proper authorization. Relying solely on manual reprogramming for every minor change is inefficient and hampers system responsiveness.

31. (B) I, III, and V only

Drawing Power regulates the actual utilization of a cash credit limit based on the value of current assets. Banks calculate this power by applying stipulated margins to the value of stocks and book-debts provided in periodic statements. These statements are typically obtained monthly rather than annually. The calculation focuses specifically on eligible current assets rather than deducting all liabilities.

32. (A) I and II only

Unbiased automated decisions in retail lending depend on verifying key data points and historical records. Essential elements include assessing ownership documents, prior-charge history, and Credit Information Company scores. The system also evaluates quantitative metrics like the Loan-to-Value ratio. These decisions are not decoupled from third-party data; rather, they rely heavily on integrated external databases to ensure a comprehensive risk assessment.

- 66.** (C) In Lock and Key, the bank holds the keys of the godown; in Hypothecation, possession remains with the borrower.

The primary difference between the 'Lock and Key' method and 'Hypothecation' lies in the custody of the assets. In 'Lock and Key' advances, the bank maintains physical control by holding the keys to the warehouse where the inventory is stored. In contrast, under hypothecation, the borrower retains possession and operational control of the goods, which is more convenient.

- 67.** (A) Reliance on personal bias and judgemental omission of factual risk indicators.

Manual loan processing is often hindered by the subjective nature of human judgment, where personal interactions may lead an officer to overlook factual risk indicators. An automated STP system eliminates this flaw by relying on objective data from multiple sources, such as credit reports and deep transaction analysis. This ensures a neutral and consistent evaluation, free from personal biases.

- 68.** (A) P-3, Q-1, R-4, S-2

Different charge creation methods offer varying levels of control over security. In 'Lock and Key', the bank holds the godown keys. Hypothecation allows the borrower to retain full possession of inventory for business use. A pledge involves the lender taking physical or constructive possession. A trust receipt is a mechanism where the borrower is allowed to sell goods as agent.

- 69.** (A) P-3, Q-1, R-2, S-4

Mechanized loan processing involves several key concepts. Machine lending relies on coded algorithms and defined parameters. Human bias in manual decisions can lead to errors known as omissions and commissions. The credit underwriting engine is the core software that handles automated processing. Success depends on the synchronisation between the software's capabilities and the specific policy requirements of users.

- 70.** (C) The regulated limit within the cash credit limit, based on margins and current assets. Drawing power is a critical risk management tool used in working capital financing. While

a bank sanctions a total cash credit limit, the amount a borrower can actually draw is restricted by the current value of their stocks and book-debts. By applying stipulated margins to these asset values, the bank determines the drawing power, ensuring collateralization of the debt.

- 71.** (B) Personal loans are simple, while commercial lending intricacies demand nuanced analysis and varied norms.

Retail loans like home or car loans are relatively straightforward and easier to automate because they follow standardized parameters. In contrast, commercial lending involves diverse business models, varying financial ratios, and complex sectoral risks. This intricacy requires a more nuanced analysis and a wider range of appraisal norms, making the development of fully automated straight-through processing more challenging.

- 72.** (D) I, II, and III

Banks have several tools for managing working capital loans effectively. They can determine repayment schedules, including installment or bullet payments, and may allow rollovers subject to regulatory compliance. To ensure disciplined limit management, the undrawn portion of large cash credit facilities is assigned a credit conversion factor. These measures help banks manage liquidity and encourage borrowers to project needs.

- 73.** (D) I, II, III, and IV

Developing straight-through processing for structured retail lending is simpler due to lower complexity. Commercial lending, however, often requires human intervention to interpret nuanced financial data. Despite this, many parameters in commercial appraisal, including financial ratio analysis and exposure norms, can be successfully programmed. Automation in this segment helps handle quantitative indicators while allowing for expert qualitative evaluation.

- 74.** (B) The bifurcation shall be effected before excluding the export credit limits and bills limit for inland sales.

Guidelines for splitting working capital limits into loan and cash credit components follow

creditworthiness, and process disbursements with very little manual intervention. This system increases operational efficiency, reduces the time required for loan approval, and ensures that the bank's lending policies are consistently applied through automated integration.

- 58.** (B) To secure the advance when the subsidiary's own financial condition is not considered satisfactory.

Banks may require a parent company to provide a corporate guarantee for credit facilities extended to its subsidiary. This is particularly relevant when the subsidiary's financial position or independent cash generation capacity is not strong enough to satisfy the bank's risk criteria. The parent company's guarantee provides additional security and ensures the group's overall commitment to the subsidiary's debt obligations.

- 59.** (A) Functionality of STP is rigidly static and cannot be parameterized to switch from one type of loan to another.

Straight-through processing relies on synchronized software that can be parameterized to accommodate different loan types and varying risk profiles. Far from being static, effective STP systems are designed to be flexible, allowing users to define different sets of rules for retail, MSME, or commercial lending. This adaptability is essential for the system to produce desired output across portfolios.

- 60.** (C) When securing advances for public limited companies rated as first-class.

Regulatory guidelines suggest that personal guarantees should be used judiciously. They are typically deemed unnecessary for public limited companies that are rated as first-class and possess a strong financial track record. In such instances, the company's own creditworthiness and the primary security provided are considered sufficient, making additional personal guarantees from the directors a redundant requirement for the lender.

- 61.** (A) P-1, Q-2, R-3, S-4

Straight-through processing enhances loan efficiency through several mechanisms. Identity verification is streamlined by integrating with the Aadhaar database. Rule-based automation

removes subjective human biases from the decision process. To recast financial statements, the system scans and uploads account data from other lenders to identify circular transactions. These automated workflows collectively result in significantly reduced turn-around times.

- 62.** (C) Statement I is true and Statement II is false.

Disbursement methods vary depending on the nature of the loan. While personal or consumption loans might be credited directly to a customer's account, term loans for large-scale projects are not disbursed in a single upfront payment. Instead, project financing is released in stages, aligned with actual progress and the promoters' infusion of their required equity contribution.

- 63.** (D) It will discard round-about entries and recast the balance sheet correctly.

Advanced automated processing systems are equipped to handle sophisticated financial analysis. When scanning bank statements, the STP engine can identify circular fund transfers that do not represent genuine business activity. By discarding these round-about entries, the system can recast the borrower's profit and loss account and balance sheet to reflect the true financial health and operational performance.

- 64.** (D) Hypothecation

Hypothecation is a widely used method for creating a charge over movable assets like stocks and book-debts. In this arrangement, the borrower retains physical possession and the right to use the assets for business operations, while the bank holds a legal charge over them. This differs from a pledge, where the lender takes actual physical or constructive possession.

- 65.** (A) I, II, and IV only

Machine lending utilizes diverse parameters to evaluate credit risk. These include quantitative factors like loan-to-value ratios and qualitative aspects converted into scores. The system also performs analytical evaluations of the broader industry and macro-economic conditions. Effective machine lending must not rely on static rules; rather, programming must remain flexible and adaptable to the dynamic business environment to ensure accurate assessments.

CHAPTER 22

Credit Control and Monitoring

May/June 2016

1. During the review of an account, the Credit Audit Department finds that the line functionaries have identified serious irregularities but have delayed taking follow-up action. What should the Credit Audit Department do as part of its Action Points for Review?
 - (A) Terminate the employment of the line functionaries immediately for negligence.
 - (B) Oversee action taken by line functionaries regarding serious irregularities.
 - (C) Take over the daily management of the borrower's account directly as a bank.
 - (D) Erase the irregularities from the audit report to protect the branch's reputation.

Oct/Nov 2009

2. Identify the incorrectly matched pair regarding the treatment of stock and receivables:
 - (A) Receivables above six months - Moved to non-current assets
 - (B) Statement of stock and receivables - Submitted normally monthly
 - (C) Non-moving stocks - Included for calculating Drawing Power
 - (D) Latest stock statements - Cross checked with records during periodic inspection

May/June 2023

3. How is Drawing Power (DP) calculated in the context of periodic information submitted by the borrower?
 - (A) It is calculated based on periodic statements of stock and receivables.
 - (B) It is calculated from audited annual financial statements and formal reports.
 - (C) It is formulated through market reports obtained from various industry groups.
 - (D) It is derived from a periodic legal audit of all registered title documents.

Oct/Nov 2018

4. Consider the following statements regarding the Credit Audit Department:

- I. The credit audit/loan review mechanism may be assigned to a specific Department or the Inspection and Audit Department.
- II. A key function of the Credit Audit Department is to process responses received and arrange for closure of the relative Credit Audit Reports.

Which of the following is correct?

- (A) Only Statement I is correct
- (B) Only Statement II is correct
- (C) Both Statements I and II are correct
- (D) Both Statements I and II are incorrect

May/June 2007

5. Which of the following best defines a Credit Audit?
 - (A) An external assessment of market share conducted by an independent rating agency.
 - (B) A statutory audit mandated by the regulator for all active commercial loan accounts.
 - (C) A formal valuation of the collateral and securities pledged by a specific borrower.
 - (D) An internal examination of credit functions conducted by staff with credit experience.

Oct/Nov 2025

6. Consider the following statements regarding appointing a bank's nominee on a company's board:
 - I. It is mandatorily done for all accounts to oversee day-to-day operations.
 - II. It is opted for in exceptional cases or large limits to keep a tab on important decisions.

Which of the following is correct?

- (A) Only Statement I is correct
- (B) Only Statement II is correct
- (C) Both Statements I and II are correct
- (D) Both Statements I and II are incorrect

NODIA

May/June 2012

7. What is the recommended frequency of review for high risk accounts under the Loan Review Mechanism?
- (A) 1 month
 - (B) 3 months
 - (C) 6 months
 - (D) 1 year

Oct/Nov 2014

8. Consider the following statements regarding the importance and purpose of the Loan Review Mechanism (LRM):
- I. It ensures that funds provided by the bank continue to be used properly.
 - II. It allows the bank to relax security margins once the business is running on projected lines.
 - III. It facilitates early detection of problems, thereby preventing reduction in chances of recovery.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) I and III only
 - (C) II and III only
 - (D) I, II, and III

May/June 2019

9. According to standard regulatory guidelines, banks must subject the title deeds and other documents to periodic legal audit and re-verification for all credit exposures of:
- (A) Rs. 1 crore and above
 - (B) Rs. 5 crores and above
 - (C) Rs. 10 crores and above
 - (D) Rs. 50 crores and above

Oct/Nov 2006

10. Consider the following statements regarding the coverage of Loan Review in Credit Audit:
- I. It covers all fresh proposals within 3-6 months from the date of sanction.
 - II. It covers all existing accounts with sanction limits equal to or above a cut off.
 - III. It deliberately excludes accounts of sister concerns to maintain confidentiality.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only

(D) I, II, and III

May/June 2021

11. Why are banks advised not to depend entirely on certificates issued by Chartered Accountants regarding the utilization of funds?
- (A) Incorrect certification may occur, requiring independent bank action or withdrawal.
 - (B) Chartered Accountants lack the specific technical expertise to evaluate inventory.
 - (C) CA certificates are legally non-binding and cannot be used in a court of law.
 - (D) Monitoring of credit is exclusively the domain of the bank's concurrent auditors.

Oct/Nov 2010

12. Consider the following tools available for Credit Monitoring/LRM:
- I. Conduct of the Accounts with the Bank
 - II. Periodic Information Submitted as per the Terms of the Advance
 - III. Stock/Receivables Audit Conducted by the Bank
 - IV. Issuing equity shares to the public
- Which of the above statement(s) is/are correct?
- (A) I, II, and IV only
 - (B) I, II, and III only
 - (C) II, III, and IV only
 - (D) I, III, and IV only

May/June 2005

13. Under what circumstances may a bank opt to appoint a nominee director on the company's board?
- (A) Routinely for all accounts where working capital limits are officially sanctioned.
 - (B) In exceptional or large-limit cases to monitor significant corporate decisions.
 - (C) Exclusively for accounts that have been classified as Non-Performing Assets.
 - (D) Only when the borrower explicitly requests the bank for management assistance.

Oct/Nov 2022

14. Consider the following functions of the Credit Audit Department:
- I. To process Credit Audit Reports.
 - II. To analyse Credit Audit findings and advise the concerned departments.
 - III. To follow up with controlling authorities.
 - IV. To directly sanction additional working

capital limits based on audit findings.
Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) I, III, and IV only
- (C) II, III, and IV only
- (D) I, II, and IV only

May/June 2018

15. Consider the following statements regarding Legal Audit of title documents:

- I. Guidelines require concurrent auditors to look into the genuineness of title documents for large value loans.
- II. Periodic legal audit is mandated for all credit exposures of Rs. 5 crores and above.
- III. Re-verification of title deeds with relevant authorities is part of the regular audit exercise.
- IV. Banks must furnish a review note to the Board/Audit Committee at monthly intervals.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) I, III, and IV only
- (C) II, III, and IV only
- (D) I, II, and IV only

Oct/Nov 2016

16. Which statement accurately reflects the procedure to be followed for Credit Audit?

- (A) Credit auditors must visit the borrower's factory premises for every audit.
- (B) It is conducted at the appraising branch where credit limits are available.
- (C) Credit Audit is conducted off-site exclusively at the bank's headquarters.
- (D) Reports on the conduct of accounts are not called from corresponding branches.

May/June 2014

17. Consider the following statements concerning periodic information and stock audits:

- I. Statements of stock and receivables are to be submitted by the borrower at regular intervals.
- II. The bank calculates Drawing Power (DP) exclusively on the past year's balance sheet.
- III. Old receivables are generally moved to non-current assets.

IV. Stock audit is used in medium and large size accounts.

V. The purpose of stock audits is to cross check the reliability of the statements submitted by the borrower.

Which of the above statement(s) is/are correct?

- (A) I, III, IV, and V only
- (B) I, II, III, and IV only
- (C) II, III, IV, and V only
- (D) I, II, IV, and V only

Oct/Nov 2007

18. Which of the following is NOT a function of the Credit Audit Department?

- (A) To act as the primary sanctioning authority for new large value loan proposals.
- (B) To process and evaluate comprehensive Credit Audit Reports on a regular basis.
- (C) To maintain a database of advances that have been subjected to Credit Audit.
- (D) To apprise the Top Management of the bank regarding various credit findings.

May/June 2025

19. Consider the following statements regarding the elements covered under Loan Review in Credit Audit:

- I. All fresh proposals and proposals for renewal of limits within 3-6 months from the date of sanction.
- II. All existing accounts with sanction limits equal to or above a cut off.
- III. Randomly selected 5-10% proposals from the rest of the portfolio.
- IV. Accounts of sister concerns of the above accounts, even if the limit is less than the cut off.
- V. Daily physical verification of all cash transactions of the borrower.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and V only
- (B) I, II, III, and IV only
- (C) II, III, IV, and V only
- (D) I, III, IV, and V only

Oct/Nov 2019

20. Identify the incorrect statement regarding the Action Points for Review in Credit Audit.

- (A) Examining the adequacy of documentation.
- (B) Verifying compliance of the bank's laid

NODIA

(D) Credit Audit Report.

May/June 2024

- 74.** Match the Credit Monitoring Tools in List I with their corresponding descriptions in List II.

List I: (Credit Monitoring Tools)

- P. Periodic Information Submitted
Q. Financial Statements of the Business
R. Periodic Visits and Inspections
S. Market Reports

List II: (Descriptions)

1. Helps in ascertaining if activities are at anticipated levels and finding position of charged assets.
 2. Submitted at regular intervals to calculate Drawing Power (DP).
 3. Available from industry associations and rating agencies.
 4. Normally available once a year to analyze profitability and realization of debts.
- (A) P-2, Q-4, R-1, S-3
(B) P-1, Q-3, R-4, S-2
(C) P-4, Q-2, R-3, S-1
(D) P-3, Q-1, R-2, S-4

Oct/Nov 2017

- 75.** A large bank is structuring its Credit Audit Department. To ensure the audit examines compliance effectively, who should normally conduct the credit audit?
- (A) Internal staff having adequate credit experience.
(B) External Chartered Accountants selected by the borrower.
(C) The exact same line functionaries who appraised the loan.
(D) Nominee directors appointed on the company's board.

May/June 2006

- 76.** Match the unsatisfactory features of account conduct in List I with the corresponding remedial measures or indicators in List II.
- List I: (Unsatisfactory Features)
- P. Frequent overdrawings and delays in submission of stock statements
Q. Incorrect certification by Chartered Accountants
R. Accumulation of inventory and old receivables
S. Activities not matching anticipated levels

of operation

List II: (Remedial Measures/Indicators)

1. Prompt action including withdrawal of facilities and legal recourse.
 2. Requires more frequent inspections of godowns and insisting on pledge of stock.
 3. Discovered during field visits.
 4. Excluded from calculation of Drawing Power.
- (A) P-1, Q-2, R-3, S-4
(B) P-2, Q-1, R-4, S-3
(C) P-3, Q-4, R-1, S-2
(D) P-4, Q-3, R-2, S-1

Oct/Nov 2013

- 77.** Kappa Ltd has been categorized as a high-risk account, while Lambda Ltd is an average-risk account, and Sigma Ltd is a low-risk account. According to the frequency of review guidelines in Credit Audit, when should these accounts be reviewed respectively?
- (A) Kappa Ltd: 1 year, Lambda Ltd: 6 months, Sigma Ltd: 3 months.
(B) Kappa Ltd: 3 months, Lambda Ltd: 6 months, Sigma Ltd: 1 year.
(C) Kappa Ltd: 6 months, Lambda Ltd: 1 year, Sigma Ltd: 2 years.
(D) Kappa Ltd: 1 month, Lambda Ltd: 3 months, Sigma Ltd: 6 months.

May/June 2008

- 78.** Match the Credit Audit functions/objectives in List I with their relative actions in List II.
- List I: (Credit Audit Functions/Objectives)
- P. Objective of Credit Audit
Q. Function of Credit Audit Department
R. Procedure for Credit Audit
S. Scope of Credit Audit
- List II: (Actions)
1. Maintain database of advances subjected to Credit Audit.
 2. Review sanction process and compliance status of large loans.
 3. Broadened from account level to look at the overall portfolio.
 4. Conducted on site at the branch which has appraised the advance.
- (A) P-1, Q-3, R-2, S-4
(B) P-2, Q-1, R-4, S-3
(C) P-4, Q-2, R-1, S-3
(D) P-3, Q-4, R-3, S-1

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- (B) To immediately upgrade the borrower's internal credit rating score.
- (C) To ensure the bank can provide additional unsecured corporate funding.
- (D) Because the bank must notify the industry association before taking action.

May/June 2020

- 27.** Beta Traders submitted a certificate from their Chartered Accountant indicating full utilization of working capital for inventory. The bank independently verified and found the certification to be incorrect, with no actual inventory present. Based on standard banking guidelines, what is the most appropriate course of action?
- (A) The bank should depend entirely on the certificate and close the matter.
 - (B) The bank should file a police complaint against the borrower for fraud.
 - (C) The bank should initiate prompt action including withdrawal of facilities.
 - (D) The bank should request the CA to revise the certificate to match stocks.

Oct/Nov 2015

- 28.** What is the most appropriate purpose of analyzing the Financial Statements of the Business and Auditors' Report during the renewal exercise of working capital limits?
- (A) To verify the daily stock positions of the business on a continuous basis.
 - (B) To physically verify all the heavy machinery installed in the factory.
 - (C) To ensure title documents are genuinely registered with relevant authorities.
 - (D) To gain information about fund utilization, health, and profitability.

May/June 2013

- 29.** Delta Enterprises submits its monthly statement of stock and receivables to calculate Drawing Power (DP). Upon scrutiny, the bank official notices that a significant portion of the receivables has been pending for over eight months. How should the bank treat these 8-month-old receivables?
- (A) Include them in the DP calculation as they demonstrate a large volume of sales.
 - (B) Ask the borrower to provide a heavy discount to the debtors to clear them.
 - (C) Classify them as non-current assets and

- exclude them from calculating DP.
- (D) Automatically write them off from the borrower's books of accounts.

Oct/Nov 2021

- 30.** What is the primary necessity for detecting non-moving stocks and old receivables during a periodic inspection?
- (A) To calculate the employee bonus for the borrowing company at year-end.
 - (B) To prepare a comprehensive marketing brochure for the borrower's use.
 - (C) To report the matter to the national stock exchange for public review.
 - (D) To correct the Drawing Power and detect danger signals in the business.

May/June 2024

- 31.** During a periodic field visit to Zeta Manufacturing, the bank official notices that the activity level matches the anticipated level, but there is no signage indicating that the assets are charged to the bank. What is the significance of this observation?
- (A) It has no significance as long as the legal documents are officially signed.
 - (B) It indicates that the borrower has already fully repaid the entire loan.
 - (C) It implies that the bank must immediately seize and liquidate the security.
 - (D) It violates the rule that the bank's charge must be prominently displayed.

Oct/Nov 2008

- 32.** Arrange the following actions in the Loan Review Mechanism when handling a borrower's deteriorating business in the correct logical sequence:
1. Notice deterioration from projected lines.
 2. Decide if harsh action like recalling the advance is necessary if deterioration continues.
 3. Initiate appropriate action in consultation with the borrower.
- (A) 1, 2, 3
 - (B) 1, 3, 2
 - (C) 3, 1, 2
 - (D) 2, 1, 3

May/June 2006

- 33.** The bank receives market reports from a reputable industry association suggesting

a severe impending downturn in the textile sector, where borrower Theta Textiles operates. How does this tool assist the Loan Review Mechanism?

- (A) It dictates an immediate and mandatory recall of all advances in that sector.
- (B) It provides a legal basis for the bank to increase the interest rate unilaterally.
- (C) It serves as an early warning signal prompting the bank to take action.
- (D) It replaces the need for any further periodic visits to the borrower premises.

Oct/Nov 2017

- 34.** Match the Frequency of Review in List I with the corresponding magnitude of risk in List II as per Loan Review guidelines.

List I: (Frequency of Review)

- P. 3 months
- Q. 6 months
- R. 1 year
- S. 3-6 months from date of sanction

List II: (Magnitude of Risk)

- 1. Average risk accounts
- 2. Fresh proposals and renewal of limits
- 3. High risk accounts
- 4. Low risk accounts
- (A) P-1, Q-3, R-4, S-2
- (B) P-3, Q-1, R-4, S-2
- (C) P-4, Q-2, R-1, S-3
- (D) P-2, Q-4, R-3, S-1

May/June 2008

- 35.** Iota Corp's fresh loan proposal was sanctioned and disbursed four months ago. According to standard Loan Review guidelines, what is the status of this account regarding review?

- (A) It should only be reviewed after one year from the date of sanction.
- (B) Fresh proposals are exempt from Loan Review mechanisms entirely.
- (C) It should be reviewed based on random selection from the rest of the portfolio.
- (D) It falls within the 3-6 months timeframe for the Loan Review process.

Oct/Nov 2013

- 36.** Match the important areas of Credit Audit scope in List I with their specific review activities in List II.

List I: (Credit Audit Scope)

- P. Portfolio Review

Q. Loan Review

R. Action Points for Review

S. Frequency of Review

List II: (Specific Review Activities)

- 1. Varies depending on the magnitude of risk (3 months, 6 months, 1 year).
- 2. Suggests measures for improvement, including reduction of concentrations in certain sectors.
- 3. Includes randomly selected 5-10% proposals from the rest of the portfolio.
- 4. Detects early warning signals and suggests remedial measures thereof.

- (A) P-2, Q-3, R-4, S-1
- (B) P-3, Q-2, R-1, S-4
- (C) P-1, Q-4, R-2, S-3
- (D) P-4, Q-1, R-3, S-2

May/June 2015

- 37.** A credit auditor has been assigned to audit the accounts at the Main City Branch, which holds the operative credit limits for several large borrowers. The auditor insists on visiting the borrowers' factory premises to complete the audit. Based on the documented procedure for Credit Audit, is the auditor's insistence justified?

- (A) Yes, physical factory inspection is the primary function of a credit auditor.
- (B) Yes, the auditor must verify the prominent display of the bank's charge on-site.
- (C) No, the audit is conducted on site at the branch rather than the factory.
- (D) No, credit audits are solely conducted centrally without visiting any branches.

Oct/Nov 2012

- 38.** Identify the correct pair regarding the frequency of review under Credit Audit:

- (A) High risk accounts - 6 months
- (B) Low risk accounts - 1 year
- (C) Average risk accounts - 1 year
- (D) Fresh proposals - 12 months from date of sanction

May/June 2011

- 39.** The Credit Audit Department conducts a Portfolio Review and observes a high concentration of loans in a specific sector. What action should the department suggest based on its scope and coverage guidelines?

- (A) Suggest measures for improvement

including reduction of sector concentrations.

- (B) Suggest increasing exposure to leverage high returns in the specific sector.
- (C) Ignore the concentration as long as the individual loans are performing well.
- (D) Transfer the excess loans to another bank without obtaining borrower consent.

Oct/Nov 2020

40. Which of the following pairs of Credit Audit Action Points is INCORRECTLY matched?
- (A) Conduct - The statutory audit of the borrower's annual accounts
 - (B) Examine - Adequacy of documentation
 - (C) Forecast - Likely happenings in the near future
 - (D) Oversee - Action taken by line functionaries in respect of serious irregularities

May/June 2022

41. What is the primary operational term used to describe the ongoing process of credit control and monitoring to ensure proper fund utilization and business viability?
- (A) Credit Appraisal Verification
 - (B) Loan Review Mechanism
 - (C) Risk Mitigation Framework
 - (D) Concurrent Audit Process

Oct/Nov 2023

42. Consider the following statements:
- I. Receivables above six months are typically moved to non-current assets and included for calculating Drawing Power (DP).
 - II. The detection of non-moving stocks and old receivables is solely meant to penalize the borrower financially.

Which of the following is correct?

- (A) Only Statement I is correct
- (B) Only Statement II is correct
- (C) Both Statements I and II are correct
- (D) Both Statements I and II are incorrect

Oct/Nov 2009

43. In the context of credit monitoring, what is the specific classification for receivables that are normally above six months old?
- (A) Current liabilities
 - (B) Bad debts
 - (C) Non-current assets
 - (D) Contingent assets

May/June 2016

44. Consider the following statements about Legal Audit:

- I. Standard regulatory guidelines require banks to subject title deeds in respect of all credit exposures of Rs. 5 crores and above to periodic legal audit.
- II. Banks must furnish a review note to their Board/Audit Committee at yearly intervals regarding such legal audits.

Which of the following is correct?

- (A) Only Statement I is correct
- (B) Only Statement II is correct
- (C) Both Statements I and II are correct
- (D) Both Statements I and II are incorrect

Oct/Nov 2018

45. The guidelines outlining the objectives of Credit Audit are contained in the 'Guidance note on credit risk management' dated:

- (A) 30th June 2011
- (B) 7th June 2013
- (C) 12th October 2002
- (D) 1st April 2005

May/June 2023

46. Consider the following statements regarding periodic visits and inspections:

- I. They give an impression about the activity level of the enterprise.
- II. They replace the necessity for obtaining stock statements from the borrower.
- III. They help in ensuring that the fact of the bank's charge over the assets is prominently displayed.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

Oct/Nov 2025

47. What is the recommended frequency of review for low risk accounts under the Loan Review Mechanism?

- (A) 3 months
- (B) 6 months
- (C) 1 year
- (D) 2 years

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down policies and regulatory compliance with regard to sanction.

- (C) Overseeing action taken by line functionaries in respect of serious irregularities.
- (D) Ignoring early warning signals as they are the responsibility of the statutory auditor.

May/June 2009

21. In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Select the correct choice from the options given below:

Assertion (A): The risk of default in an advance may go up as time passes, despite an excellent credit appraisal.

Reason (R): The assumptions made at the time of appraisal may lose their sanctity in view of the dynamic nature of the business environment.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2011

22. Which of the following is NOT considered an unsatisfactory feature while monitoring the conduct of accounts with the bank?

- (A) The frequent return of cheques or bills.
- (B) Consistently low operational turnover.
- (C) Prompt payment of interest and installments.
- (D) The sudden devolvement of issued LCs.

May/June 2010

23. In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Select the correct choice from the options given below:

Assertion (A): Stock audit is heavily utilized by banks in case of medium and large size accounts.

Reason (R): Verifying the stocks during normal inspection is often not feasible or stocks are located at various locations.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

24. Which of the following is NOT an objective of Credit Audit?

(A) Reviewing the sanction process and compliance status of large loans.

(B) Recommending corrective action to improve credit quality and credit administration.

(C) Picking up early warning signals and suggesting remedial measures.

(D) Restructuring the organizational hierarchy of the borrowing enterprise.

May/June 2017

25. In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Select the correct choice from the options given below:

Assertion (A): Banks are required to subject title deeds of all credit exposures to periodic legal audit and re-verification.

Reason (R): Regulatory guidelines specify that periodic legal audit is applicable to credit exposures of Rs. 5 crores and above.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2005

26. In cases where the deterioration of the business continues despite appropriate action, why is early detection of the problem very important?

(A) Delay may result in security deterioration and reduce recovery chances.

stock in place of hypothecation under any circumstances.

- (C) Frequent overdrawings and delays in submission of stock statements are considered unsatisfactory features.
- (D) Invocation of Bank Guarantees usually indicates excellent financial health of the enterprise.

Oct/Nov 2022

55. Consider the following actions taken by a bank to strengthen its monitoring system upon observing unsatisfactory features in an account:

- I. Resorting to more frequent inspections of borrowers' godowns.
- II. Ensuring that sale proceeds are routed through the borrower's accounts maintained with the bank.
- III. Insisting on the pledge of stock in place of hypothecation.
- IV. Allowing further frequent overdrawings to support the borrower.
- V. Writing off the interest delayed by the borrower.

Which of the above represents correct strengthening actions?

- (A) I, II, and III only
- (B) I, III, and IV only
- (C) II, III, and V only
- (D) I, II, and V only

May/June 2005

56. Which of the following is correct regarding the structure of the Credit Audit Department?

- (A) The credit audit function may be assigned to a specific Department or the Inspection and Audit Department.
- (B) The credit audit mechanism must be outsourced to external rating agencies.
- (C) The credit audit department must operate under the direct supervision of the borrower's statutory auditors.
- (D) The credit audit function must be handled exclusively by the line functionaries who appraised the loan.

Oct/Nov 2016

57. Consider the following objectives of Credit Audit:

- I. Improvement in the quality of the credit portfolio.

II. Review of the sanction process and compliance status of large loans.

III. Feedback on regulatory compliance.

IV. Independent review of Credit Risk Assessment.

V. Detection of early warning signals and suggestion of remedial measures.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV only
- (B) II, III, IV, and V only
- (C) I, III, IV, and V only
- (D) I, II, III, IV, and V

May/June 2018

58. Identify the incorrect statement regarding the importance and purpose of credit control and monitoring.

- (A) It ensures that funds provided by the bank are put to the intended use.
- (B) Harsh action is strictly prohibited even if business deterioration continues.
- (C) It helps ascertain that the business continues to run on projected lines.
- (D) Any diversion of bank's funds out of the business should be stopped.

Oct/Nov 2007

59. Consider the following factors evaluated during Credit Audit:

- I. Verifying compliance of bank's laid down policies.
- II. Examining adequacy of documentation.
- III. Reviewing the Credit Risk Assessment methodology.
- IV. Forecasting likely happenings in the near future.
- V. Providing feedback on general regulatory compliance.

Which of the above statement(s) is/are correct?

- (A) I, II, III, IV, and V
- (B) I, II, III, and V only
- (C) II, III, IV, and V only
- (D) I, II, and IV only

May/June 2014

60. Which of the following statements concerning the scope and coverage of Loan Review is incorrect?

- (A) It includes all fresh proposals and proposals for renewal of limits within 3-6 months

May/June 2007

48. Consider the following statements about the objectives of Credit Audit:
- I. It provides feedback on regulatory compliance.
 - II. It provides an independent review of Credit Risk Assessment.
 - III. It recommends corrective actions for credit administration and credit skills of staff.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

Oct/Nov 2014

49. Despite an excellent credit appraisal and obtention of security, the risk of default in an advance may go up over time. What is the fundamental reason for this?
- (A) Bank internal policies often undergo significant structural changes after the sanction.
 - (B) Collateral securities naturally depreciate in physical and market value over time.
 - (C) Appraisal assumptions may lose sanctity due to a dynamic business environment.
 - (D) The borrower's management team is likely to change significantly within one year.

May/June 2012

50. Consider the following Action Points for Review in Credit Audit:
- I. Conduct the credit risk assessment.
 - II. Oversee action taken by line functionaries in respect of serious irregularities.
 - III. Examine reporting system and exceptions thereof.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) I and III only
 - (C) II and III only
 - (D) I, II, and III

Oct/Nov 2006

51. Which of the following represents a key conceptual purpose of conducting periodic visits and inspections at the borrower's premises?
- (A) To calculate drawing power and

immediately authorize additional withdrawals.

- (B) To legally verify the title documents of the property mortgaged to the bank.
- (C) To ensure that the borrower's books of accounts are audited on-site by staff.
- (D) To ascertain whether activities match the levels used for assessing limits.

May/June 2019

52. Which of the following signs which may be observed while analyzing the conduct of an account:
- I. Routing of transactions with some other bank
 - II. Delay in payment of interest/installments
 - III. Early repayment of term loans
 - IV. Invocation of Bank Guarantees
- Which of these are considered unsatisfactory features?
- (A) I, II, and IV only
 - (B) II, III, and IV only
 - (C) I, II, and III only
 - (D) I, III, and IV only

Oct/Nov 2010

53. Consider the following statements regarding the procedure to be followed for Credit Audit:
- I. Credit Audit is conducted on site at the branch which has appraised the advance.
 - II. The main operative credit limits are made available during the audit.
 - III. Reports on conduct of accounts of allocated limits are to be called from the corresponding branches.
 - IV. Credit auditors are mandated to visit borrowers' factory/office premises.
- Which of the above statement(s) is/are correct?
- (A) I, II, and IV only
 - (B) I, II, and III only
 - (C) II, III, and IV only
 - (D) I, III, and IV only

May/June 2021

54. Which of the following statements regarding the conduct of accounts with the bank is correct?
- (A) Routing of transactions with some other bank is considered a satisfactory feature of account conduct.
 - (B) The bank cannot insist on the pledge of

shows that the funds provided for machinery purchase have been utilized to buy real estate unconnected to the business. As per the principles of credit control, what must the bank primarily do in this situation?

- (A) Ensure the diversion of bank's funds is detected and stopped immediately.
- (B) Increase the credit limit to allow the purchase of the machinery.
- (C) Allow the unauthorized use since real estate is a secured asset.
- (D) Ignore the diversion if the borrower continues paying interest on time.

May/June 2017

68. What is the most appropriate action a bank may take if it discovers incorrect certification by Chartered Accountants regarding the utilization of funds?

- (A) The bank should immediately write off the entire loan as a total loss.
- (B) The bank must appoint a new Chartered Accountant at its own expense.
- (C) The bank may initiate prompt action including withdrawal of facilities.
- (D) The bank should convert the entire working capital limit into equity.

Oct/Nov 2015

69. Gamma Industries' account displays frequent overdrawings, return of cheques, and recent devolvement of Letters of Credit (LCs). To strengthen the monitoring system in response to these unsatisfactory features, which of the following measures should the bank adopt?

- (A) Reduce the frequency of godown inspections to save administrative costs.
- (B) Allow the borrower to route sale proceeds through an account with another bank.
- (C) Increase the limit of the Letter of Credit facility to prevent future devolvement.
- (D) Convert the existing hypothecation of stock into a pledge of stock.

May/June 2020

70. The focus of credit audit needs to be broadened from the account level. What is the most appropriate broadened focus?

- (A) To solely monitor the stock levels at all geographical locations of the borrower.
- (B) To look at the overall portfolio and the credit process being followed.

- (C) To manage the daily administrative operations of the borrowing company.
- (D) To audit the personal financial statements of the bank's employees.

Oct/Nov 2021

71. Epsilon Corp is a large-size account with stocks distributed across ten different warehouses. During the normal periodic inspection, it is not feasible for the branch officials to verify all stocks. What specific tool should the bank utilize to cross-check the reliability of the stock statements submitted by Epsilon Corp?
- (A) Interaction with select creditors and debtors.
 - (B) Stock audit conducted by the bank.
 - (C) Market reports from rating agencies.
 - (D) Legal Audit of title documents.

May/June 2013

72. Arrange the following regulatory developments regarding Legal Audit in the correct chronological sequence:

1. A review note is required to be furnished to the Board/Audit Committee at quarterly intervals.
 2. Guidelines require concurrent auditors to report on the genuineness of title documents for large value loans.
 3. Guidelines mandate periodic legal audit and re-verification of title deeds for credit exposures of Rs. 5 crores and above till the loan stands fully repaid.
- (A) 2, 3, 1
 - (B) 1, 2, 3
 - (C) 3, 1, 2
 - (D) 2, 1, 3

Oct/Nov 2008

73. Eta Services is undergoing its annual renewal exercise for working capital limits. The bank requires information regarding the use/diversion of funds, realization of debts, and overall profitability over the last year. Which of the following tools is normally available once a year and is best suited for this analysis?
- (A) Financial Statements of the Business and Auditors' Report.
 - (B) Monthly statements of stock and receivables.
 - (C) Frequent inspections of the borrower's godowns.

from the date of sanction.

- (B) It includes accounts of sister concerns or associate concerns of above accounts, even if the limit is less than the cut off.
- (C) It is restricted solely to large accounts and excludes all proposals from the rest of the portfolio.
- (D) It includes all existing accounts with sanction limits equal to or above a cut off depending upon the size of activity.

Oct/Nov 2019

- 61.** Identify the correct pair regarding the frequency of review under Credit Audit:
- (A) High risk accounts - 6 months
 - (B) Low risk accounts - 1 year
 - (C) Average risk accounts - 1 year
 - (D) Fresh proposals - 12 months from date of sanction

May/June 2025

- 62.** Which of the following is NOT a tool normally used by bankers for credit monitoring / Loan Review Mechanism?
- (A) Periodic Visits and Inspections
 - (B) Marketing the borrower's products
 - (C) Financial Statements of the Business
 - (D) Interaction with select creditors and debtors

Oct/Nov 2011

- 63.** In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Select the correct choice from the options given below:

Assertion (A): Receivables above six months are excluded for calculating Drawing Power (DP).

Reason (R): Receivables above six months are typically moved to non-current assets.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2009

- 64.** Which of the following is NOT an aspect covered under the 'Action Points for Review' in Credit Audit?
- (A) Appointing the Top Management of the bank.
 - (B) Conducting the credit risk assessment.
 - (C) Examining the conduct of account and follow up looked at by line functionaries.
 - (D) Verifying compliance of the bank's laid down policies.

Oct/Nov 2024

- 65.** In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Select the correct choice from the options given below:

Assertion (A): Credit auditors are required to visit borrowers' factory or office premises to complete the audit process.

Reason (R): Credit Audit is conducted on site at the branch which has appraised the advance and where main operative credit limits are made available.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2010

- 66.** Which of the following is NOT true regarding the procedure to be followed for Credit Audit?
- (A) It is conducted on site at the branch which has appraised the advance.
 - (B) The main operative credit limits are made available at the site.
 - (C) Credit auditors must conduct a mandatory physical verification of the borrower's factory.
 - (D) Report on conduct of accounts of allocated limits are to be called from corresponding branches.

Oct/Nov 2005

- 67.** A borrower, Alpha Manufacturing, has been performing well, but recent monitoring

Oct/Nov 2012

- 79.** Omega Developers has a credit exposure of Rs. 8 crores with the bank, backed by multiple real estate properties. According to standard regulatory requirements for exposures of this size, what specific mandatory requirement must the bank fulfill regarding this exposure?
- (A) The bank must convert the loan to equity within 3 years from disbursement.
 - (B) The bank must appoint a nominee director on the board of Omega Developers.
 - (C) The bank must exempt the account from standard Loan Review Mechanisms.
 - (D) The bank must subject title deeds to periodic legal audit and re-verification.

May/June 2015

- 80.** Identify the correct pair representing a credit monitoring tool and its primary utility:
- (A) Market Reports - Checking the internal financial turnover of the borrower.
 - (B) Interaction with select creditors - Calculating the primary Drawing Power.
 - (C) Appointing Bank's Nominee - Guaranteeing the prompt repayment of the loan.
 - (D) Periodic Visits - Finding stock positions and verifying the bank's charge.

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should lead to prompt remedial measures, which may include the withdrawal of credit facilities. This ensures that the bank does not remain exposed to unreliable information.

- 69.** (D) Convert the existing hypothecation of stock into a pledge of stock.

To strengthen monitoring in response to frequent overdrawings and other signs of financial stress, a bank may switch from hypothecation to a pledge of stock. Under a pledge, the bank has actual physical possession of the inventory, providing greater security and control. This measure is more effective than allowing sale proceeds to be routed elsewhere or simply increasing the credit limits.

- 70.** (B) To look at the overall portfolio and the credit process being followed.

A modern credit audit should extend its focus beyond individual accounts to examine the overall credit portfolio and the processes being followed by the bank. This broadened perspective allows the department to identify systemic risks and evaluate the effectiveness of the entire credit management framework. Such an approach helps in improving general credit standards and ensuring long-term bank health.

- 71.** (B) Stock audit conducted by the bank.

For large accounts with inventory spread across multiple locations, a specialized stock audit is the most effective tool. It provides an independent and comprehensive verification that goes beyond what a standard branch inspection can achieve. This audit cross-checks the physical existence and value of the stock against the statements submitted by the borrower, ensuring the reliability of the bank's collateral.

- 72.** (A) 2, 3, 1

The regulatory requirements for legal audit developed in a specific sequence. First, concurrent auditors were required to report on the genuineness of title documents for large loans. Later, guidelines mandated periodic legal audits and re-verifications for credit exposures of five crores and above. Finally, banks were required to furnish quarterly review notes to their Board or Audit Committee regarding these audits.

- 73.** (A) Financial Statements of the Business and Auditors' Report.

During the annual renewal of working capital limits, the bank relies heavily on the audited financial statements and the auditor's report. These documents provide a comprehensive overview of the business's performance over the previous year, including profitability and the realization of debts. This information is essential for determining the continued viability of the enterprise and identifying any potential diversion of funds.

- 74.** (A) P-2, Q-4, R-1, S-3

Credit monitoring involves several specialized tools. Periodic information, such as stock statements, is used to calculate Drawing Power. Audited financial statements provide an annual analysis of profitability. Periodic visits help verify the position of charged assets and activity levels. Finally, market reports from industry associations provide external insights into sector trends, acting as an additional layer of risk assessment.

- 75.** (A) Internal staff having adequate credit experience.

To ensure an effective and unbiased examination of compliance and risk, a credit audit should be conducted by internal bank staff who possess adequate credit experience. This ensures that the auditors understand the complexities of lending while remaining independent from the original appraisal and sanctioning process. Using internal staff allows for a thorough review based on the bank's policies.

- 76.** (B) P-2, Q-1, R-4, S-3

Unsatisfactory account features require specific remedial responses. Frequent overdrawings and delayed statements suggest the need for more frequent inspections and a switch to a pledge of stock. Incorrect certifications from professionals should lead to prompt action, including withdrawal of facilities. Furthermore, accumulated inventory is excluded from Drawing Power calculations, while operational activity levels are verified during field visits.

9. (B) Rs. 5 crores and above
Regulatory guidelines mandate that banks perform periodic legal audits and re-verify title deeds for all credit exposures amounting to five crores and above. This requirement remains in effect until the loan is fully repaid. The process ensures that the bank's charge over the security remains valid and that the documents held are genuine and legally enforceable in court.
10. (A) I and II only
The coverage of a credit audit includes all fresh proposals and renewals within a few months of sanction, as well as existing accounts exceeding a specific limit. It also typically covers accounts of sister concerns. The goal is to evaluate a significant portion of the credit portfolio based on risk and size, rather than excluding related entities for confidentiality.
11. (A) Incorrect certification may occur, requiring independent bank action or withdrawal.
Banks must independently verify the utilization of funds because reliance solely on external certificates can be risky if those documents contain errors or misrepresentations. If a bank discovers that a certificate is incorrect, it must take prompt action, which may include the withdrawal of credit facilities. This ensures the bank remains proactive in monitoring its total credit risk exposure.
12. (B) I, II, and III only
Effective credit monitoring involves analyzing the conduct of accounts, reviewing periodic statements submitted by borrowers, and conducting independent stock or receivables audits. These tools allow the bank to verify the actual activity levels and asset values. Issuing equity shares to the public is a capital-raising activity for the company and is not a monitoring tool used by banks.
13. (B) In exceptional or large-limit cases to monitor significant corporate decisions.
A bank may choose to appoint a nominee director on a company's board in exceptional situations or when dealing with very large credit limits. This measure is intended to provide the bank with a better understanding of major corporate decisions. It is not a routine procedure for all working capital accounts but a targeted oversight tool for significant exposures.
14. (A) I, II, and III only
The Credit Audit Department is responsible for processing reports, analyzing findings, and advising departments on necessary improvements. It also follows up with controlling authorities to ensure that irregularities are resolved. However, the department does not have the authority to directly sanction additional working capital limits, as that function remains with the credit appraisal and sanctioning authorities.
15. (A) I, II, and III only
Legal audit guidelines require auditors to verify the genuineness of title documents for large loans, typically those of five crores and above. This involves re-verifying deeds with relevant authorities to prevent fraud. While reviews are necessary, the standard requirement for reporting to the Board or Audit Committee is generally at quarterly intervals rather than on a strictly monthly basis.
16. (B) It is conducted at the appraising branch where credit limits are available.
The standard procedure for a credit audit involves conducting the audit on-site at the branch where the credit limits were appraised and are currently maintained. The audit focuses on the documentation and appraisal process available at that location. While factory visits are part of general inspection, the formal credit audit itself is primarily focused on reviewing the branch's records.
17. (A) I, III, IV, and V only
Borrowers must submit regular statements of stock and receivables to calculate Drawing Power. Banks also use stock audits in medium and large accounts to cross-check these statements and ensure their reliability. Additionally, old receivables are classified as non-current assets to maintain an accurate DP. Calculating DP solely based on the previous year's balance sheet is not standard practice.

risk accounts every six months, and low-risk accounts annually. Additionally, fresh proposals and renewals are typically subjected to review within three to six months from the date of sanction to ensure that implementation aligns with the approved terms.

- 35.** (D) It falls within the 3-6 months timeframe for the Loan Review process.

According to standard loan review guidelines, all fresh loan proposals must be subjected to a review within a specific timeframe after disbursement. For an account like Iota Corp, which was sanctioned four months ago, it falls directly into the typical three-to-six-month window mandated for the initial post-sanction review. This ensures that the credit is being utilized correctly.

- 36.** (A) P-2, Q-3, R-4, S-1

The scope of a credit audit encompasses various activities aimed at portfolio and loan-level safety. Portfolio reviews suggest improvements to reduce sector concentrations, while loan reviews involve sampling proposals for detailed examination. Action points focus on detecting early warning signals, and the frequency of these reviews is determined by the specific risk level associated with each individual credit exposure.

- 37.** (C) No, the audit is conducted on site at the branch rather than the factory.

A credit audit is specifically designed to be conducted on-site at the branch that performed the appraisal and manages the operative credit limits. The auditor's primary task is to review the internal processes, documentation, and compliance at the branch level. While field visits are important for general monitoring, they are not the standard site for a formal credit audit.

- 38.** (B) Low risk accounts - 1 year

The Loan Review Mechanism sets specific intervals for reviewing accounts based on their risk classification. While high-risk accounts require frequent quarterly reviews, low-risk accounts are deemed to need less intensive monitoring. Therefore, the standard recommended frequency for reviewing low-risk accounts is once per year. This allows the bank

to allocate its auditing resources effectively while maintaining periodic oversight.

- 39.** (A) Suggest measures for improvement including reduction of sector concentrations.

When a portfolio review identifies a high concentration of loans in a single sector, the Credit Audit Department is responsible for suggesting measures to improve the overall risk profile. This typically includes recommending a reduction in sector-specific exposure to ensure better diversification. Proper diversification protects the bank from systemic shocks that could negatively impact a specific industry and jeopardize its portfolio.

- 40.** (A) Conduct - The statutory audit of the borrower's annual accounts

Credit audit action points include examining documentation, forecasting future developments based on current trends, and overseeing corrective actions for irregularities. However, conducting the statutory audit of a borrower's annual accounts is not a function of the bank's internal credit audit. Statutory audits are independent external examinations required by law and are performed by qualified external auditors, not bank staff.

- 41.** (B) Loan Review Mechanism

The Loan Review Mechanism is the primary operational term for the continuous process of monitoring and controlling credit. It ensures that bank funds are used correctly and that the borrower's business remains viable. This mechanism involves a post-sanction evaluation of individual loan assets and the credit process itself, providing a structured approach to managing credit risk throughout the loan.

- 42.** (D) Both Statements I and II are incorrect

Both statements are incorrect regarding standard banking practices. Receivables outstanding for more than six months are moved to non-current assets but are excluded from Drawing Power calculations because they lack liquidity. Furthermore, the detection of non-moving stocks and old receivables is not intended to penalize the borrower financially; rather, it is a tool used to detect business danger signals.

- 26.** (A) Delay may result in security deterioration and reduce recovery chances.

Identifying business deterioration at an early stage is critical for credit monitoring. If problems are not detected promptly, the value of the security may decrease, and the borrower's financial position might worsen significantly. This delay reduces the bank's chances of full recovery. Early intervention allows the bank to consult with the borrower and implement corrective measures before situations become critical.

- 27.** (C) The bank should initiate prompt action including withdrawal of facilities.

If a bank discovers that a Chartered Accountant has provided an incorrect certification regarding fund utilization, it must act decisively. According to standard banking practices, discovering such discrepancies is a serious red flag. The bank should initiate prompt corrective measures, which can include the withdrawal of credit facilities, to protect its interests and prevent further potential loss or misuse of funds.

- 28.** (D) To gain information about fund utilization, health, and profitability.

Analyzing audited financial statements and auditor reports during the renewal of working capital limits provides essential insights into a borrower's financial health. These documents reveal how funds have been utilized, the company's profitability, and the efficiency of debt realization. This high-level financial overview is distinct from daily stock monitoring or physical verification of machinery, focusing on overall performance.

- 29.** (C) Classify them as non-current assets and exclude them from calculating DP.

When calculating Drawing Power, banks focus on current assets that can be easily liquidated. Receivables that have been outstanding for an extended period, such as more than six months, are typically classified as non-current assets. Consequently, these old receivables are excluded from the DP calculation to ensure the available credit is backed by healthy, liquid collateral rather than stagnant debts.

- 30.** (D) To correct the Drawing Power and detect danger signals in the business.

Detecting non-moving stocks and old receivables during inspections is essential for maintaining accurate credit monitoring. These items must be excluded from Drawing Power calculations to ensure the borrower is not over-leveraged against stagnant assets. Furthermore, the presence of such items serves as a danger signal, indicating potential operational inefficiencies or a slowdown in the borrower's business activity.

- 31.** (D) It violates the rule that the bank's charge must be prominently displayed.

During periodic inspections, bank officials must ensure that the bank's charge over hypothecated or pledged assets is clearly and prominently displayed on the borrower's premises. The absence of such signage is a violation of standard security requirements. This display serves to inform third parties of the bank's legal interest in the assets, thereby protecting the bank's priority.

- 32.** (B) 1, 3, 2

The logical sequence for managing a deteriorating account begins with noticing that the business is not performing according to projections. Next, the bank should initiate appropriate corrective actions in consultation with the borrower. If the situation continues to decline despite these efforts, the bank must then decide if harsher measures, such as recalling the entire advance, are necessary.

- 33.** (C) It serves as an early warning signal prompting the bank to take action.

External market reports from industry associations are valuable tools in the Loan Review Mechanism. They provide macro-level information about sector-specific trends and downturns. Such reports act as early warning signals, prompting the bank to proactively review its exposure to the affected sector and take necessary precautions to mitigate potential credit risks before individual borrowers start showing distress.

- 34.** (B) P-3, Q-1, R-4, S-2

Loan review frequency is strictly tied to the risk profile of the account. High-risk accounts are reviewed every three months, average-

ANSWERS

1. (B) Oversee action taken by line functionaries regarding serious irregularities
The Credit Audit Department plays a crucial role in monitoring credit management processes. One of its primary action points is to oversee the follow-up actions taken by line functionaries in response to serious irregularities. This oversight ensures that identified risks are mitigated promptly and that accountability is maintained within the bank's lending operations to prevent potential losses.
2. (C) Non-moving stocks - Included for calculating Drawing Power
Non-moving stocks must be detected and excluded from drawing power calculations because they do not represent liquid assets. Including them would artificially inflate the amount a borrower can withdraw. This periodic inspection process acts as a safety mechanism to identify deteriorating business health and ensure that the collateral remains current and sufficient to cover the outstanding credit exposure.
3. (A) It is calculated based on periodic statements of stock and receivables.
Drawing Power is primarily determined using the periodic statements of stock and receivables provided by the borrower. These statements reflect the current value of the hypothecated assets. By applying the prescribed margins to these values, banks establish the maximum credit limit the borrower can utilize at any given time, ensuring the loan remains fully collateralized against active assets.
4. (C) Both Statements I and II are correct
The credit audit and loan review mechanism is a vital internal control system that can be managed by a specific department or the existing inspection and audit unit. Its key responsibilities include processing responses to audit findings and ensuring the formal closure of reports once all identified irregularities have been satisfactorily addressed by the relevant authorities within the bank.
5. (D) An internal examination of credit functions conducted by staff with credit experience.
A credit audit is defined as an internal examination focusing on credit functions, carried out by bank staff who possess significant credit experience. Unlike statutory audits, it is a management tool designed to evaluate the quality of the loan portfolio, verify compliance with internal policies, and detect early warning signals within individual accounts to minimize long-term credit risk.
6. (B) Only Statement II is correct
Appointing a bank nominee on a company's board is not a mandatory requirement for all loan accounts. Instead, this monitoring strategy is selectively applied in exceptional cases or for large credit limits. It serves as a tool for the bank to stay informed about significant corporate decisions that might impact the safety and eventual recovery of the provided credit.
7. (B) 3 months
Under the Loan Review Mechanism, the frequency of account reviews is determined by the magnitude of risk. High-risk accounts require more frequent monitoring to detect potential defaults early and implement corrective measures. Consequently, standard banking guidelines recommend that these high-risk credit exposures undergo a formal review every three months to ensure the continued safety of the bank's funds.
8. (B) I and III only
The Loan Review Mechanism is designed to confirm that funds are utilized for their intended purposes and to facilitate the early detection of operational problems. By identifying issues early, the bank can prevent a reduction in recovery chances. However, relaxing security margins once a business runs as projected is not a standard purpose of this monitoring system.

43. (C) Non-current assets

In the context of credit monitoring and the calculation of Drawing Power, receivables that have remained unpaid for more than six months are classified as non-current assets. This classification reflects the increased difficulty in collecting these debts. Because they are no longer considered highly liquid, they are generally removed from the pool of current assets used to determine the borrower's drawing limit.

44. (A) Only Statement I is correct

Standard regulatory guidelines require banks to perform periodic legal audits for all credit exposures of five crores and above to ensure the validity of title deeds. However, the reporting requirement for these audits is typically quarterly. Statement two is incorrect because banks are usually required to furnish a review note to their Board or Audit Committee at quarterly intervals rather than yearly.

45. (C) 12th October 2002

The objectives and framework for credit audit within the banking sector are outlined in the 'Guidance note on credit risk management.' This significant regulatory document was issued on the 12th of October 2002. It provides the foundation for how banks should structure their internal credit monitoring systems and emphasizes the importance of independent reviews to maintain the health of credit portfolios.

46. (C) I and III only

Periodic visits and inspections are essential tools that allow bank officials to gauge the activity level of a business and verify that the bank's charge is prominently displayed. However, these visits are intended to complement, not replace, the requirement for borrowers to submit regular stock statements. Together, these tools provide a comprehensive view of the borrower's operational status and charged security.

47. (C) 1 year

The Loan Review Mechanism differentiates the frequency of account reviews based on the risk level of the borrower. Low-risk accounts are considered stable and require less frequent monitoring compared to those with higher

risk profiles. As a result, standard banking guidelines recommend a one-year interval for the periodic review of low-risk credit exposures to ensure they remain in good standing.

48. (D) I, II, and III

Credit audit serves multiple objectives, including providing feedback on regulatory compliance and offering an independent review of the credit risk assessment process. It also plays a vital role in human resource development by recommending corrective actions that can improve the credit administration skills of bank staff. These combined functions help ensure the overall stability and quality of the entire lending operation.

49. (C) Appraisal assumptions may lose sanctity due to a dynamic business environment.

Credit risk can increase over time because the business environment is inherently dynamic. Even if an initial appraisal was excellent, the underlying assumptions regarding market conditions and economic stability may lose their validity as circumstances change. This shift can impact a borrower's ability to repay, demonstrating why continuous monitoring is necessary to identify and manage evolving risks through the mechanism.

50. (D) I, II, and III

Action points for a credit audit review encompass a thorough evaluation of the credit risk assessment and the effectiveness of the reporting system, including any exceptions. Additionally, the department is responsible for overseeing the actions taken by line functionaries to address serious irregularities. These comprehensive points ensure that both the technical assessment and the operational management of credit remain sound.

51. (D) To ascertain whether activities match the levels used for assessing limits.

Periodic visits and inspections at a borrower's premises are conducted primarily to confirm that the actual business activities align with the levels anticipated during the credit limit assessment. This process allows the bank to observe the operational status of the enterprise directly. It also provides an opportunity to

- 18.** (A) To act as the primary sanctioning authority for new large value loan proposals.
The Credit Audit Department is an internal monitoring unit that evaluates the credit process and portfolio quality. Its functions include processing audit reports, maintaining a database of audited advances, and apprising top management of findings. It does not act as a sanctioning authority for new loans, as this would compromise its independence and role as a post-sanction reviewer.
- 19.** (B) I, II, III, and IV only
Loan reviews in credit audits cover fresh proposals, renewals, and large existing accounts exceeding a set cutoff. The scope also extends to accounts of sister concerns and a random sample of the remaining portfolio to ensure broad oversight. Daily physical verification of all cash transactions is not a requirement of this process, as monitoring focuses on larger credit risk indicators.
- 20.** (D) Ignoring early warning signals as they are the responsibility of the statutory auditor.
Action points for credit audit review include examining documentation adequacy, verifying policy compliance, and overseeing the resolution of serious irregularities. Ignoring early warning signals is never part of an audit's scope; rather, auditors are specifically tasked with detecting these signals so that remedial measures can be suggested to protect the bank's interests and ensure credit quality remains high.
- 21.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Default risk can increase even after a thorough initial appraisal because business environments are dynamic. The assumptions regarding market conditions, competition, and demand made during the appraisal may change over time, rendering the original assessment less accurate. Continuous monitoring is therefore essential to identify shifts in risk and ensure the bank can respond effectively to new economic realities.
- 22.** (C) Prompt payment of interest and installments.
Monitoring the conduct of an account involves identifying signs of stress, such as frequent cheque returns, low turnover, or the devolvement of letters of credit. These are considered unsatisfactory features that indicate financial difficulty. In contrast, the prompt payment of interest and installments is a sign of a healthy account and is not classified as an unsatisfactory or negative feature.
- 23.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Banks frequently utilize stock audits for medium and large accounts because verifying physical inventory during routine branch inspections can be difficult. Large borrowers often have stocks spread across multiple locations, making comprehensive oversight challenging for branch staff. A specialized stock audit provides an independent and thorough verification of the quantity and value of the assets pledged as security.
- 24.** (D) Restructuring the organizational hierarchy of the borrowing enterprise.
The primary objectives of a credit audit include reviewing the sanction process for large loans, recommending improvements to credit administration, and identifying early warning signals for remedial action. While the bank may suggest financial improvements for the borrower, it does not have the mandate or authority to restructure the internal organizational hierarchy of a private borrowing enterprise as an objective.
- 25.** (D) Assertion (A) is false, but Reason (R) is true.
While banks are required to conduct legal audits, this mandate is not universal for all credit exposures. Instead, regulatory guidelines specifically target large value loans, requiring periodic legal audit and re-verification of title deeds only for credit exposures of five crores and above. Therefore, the requirement applies to a specific threshold rather than every single loan account in the portfolio.

- 60.** (C) It is restricted solely to large accounts and excludes all proposals from the rest of the portfolio.

The scope of loan review in a credit audit is comprehensive and not limited to only large accounts. It includes fresh proposals, renewals, and accounts of sister concerns. Additionally, it involves a random selection of five to ten percent of the remaining portfolio. This broad coverage ensures that the bank monitors credit risk effectively across various sizes and types of credit.

- 61.** (B) Low risk accounts - 1 year

The frequency of credit audit reviews is structured based on the level of risk associated with an account. Low-risk accounts are considered more stable and therefore require a review only once per year. In contrast, higher-risk accounts demand more frequent oversight, such as every three or six months, to ensure that any emerging issues are identified and addressed by the bank.

- 62.** (B) Marketing the borrower's products

Bankers use various tools for credit monitoring, including periodic visits, analysis of financial statements, and interactions with a borrower's creditors and debtors. These methods provide a clear picture of the business's health. However, marketing the borrower's products is not a function of the bank's monitoring or loan review mechanism, as the bank's role is to oversee credit, not manage sales.

- 63.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Receivables that remain unpaid for over six months are excluded from the calculation of Drawing Power because they are no longer considered current or liquid assets. In accounting and credit monitoring terms, these long-standing debts are moved to non-current assets. This practice ensures that the credit limit provided is based on fresh, collectible debts rather than stagnant, old receivables.

- 64.** (A) Appointing the Top Management of the bank.

Action points for a credit audit review focus on evaluating the credit risk assessment, verifying

policy compliance, and examining how line functionaries manage the account. While the department appraises top management of its findings, the actual appointment of the bank's top management is an executive and board function that falls entirely outside the scope of the Credit Audit Department's review activities.

- 65.** (D) Both Assertion (A) is false, but Reason (R) is true.

The assertion is false because credit auditors are not typically mandated to visit the borrower's factory or office premises; instead, the audit is conducted on-site at the branch that appraised the advance. The reason is true, as the procedure focuses on reviewing documentation and the appraisal process at the location where the main operative credit limits are made available to staff.

- 66.** (C) Credit auditors must conduct a mandatory physical verification of the borrower's factory.

The procedure for a credit audit focuses on reviewing the branch's records and appraisal processes at the location where the loan was approved. While auditors review reports on the conduct of accounts from various branches, a mandatory physical verification of the borrower's factory by the credit auditor is not a standard requirement. Such physical inspections are generally handled during regular visits.

- 67.** (A) Ensure the diversion of bank's funds is detected and stopped immediately.

When a bank identifies that funds provided for a specific business purpose have been diverted to unrelated activities, it must act immediately. Detecting and stopping the diversion of funds is a primary principle of credit control. This ensures that the bank's resources are used to support the viability of the borrower's business, which ultimately protects the bank's chances of repayment.

- 68.** (C) The bank may initiate prompt action including withdrawal of facilities.

If a bank discovers that a Chartered Accountant has provided an incorrect certification regarding the utilization of loan funds, it must take decisive action to protect its interests. Banking guidelines suggest that such discrepancies

verify that the assets charged to the bank are present and properly maintained.

52. (A) I, II, and IV only

When monitoring an account's conduct, certain behaviors are flagged as unsatisfactory features. These include routing business transactions through other banks, experiencing delays in interest or installment payments, and the invocation of bank guarantees. Such signs suggest financial stress or a lack of commitment to the lending bank. Conversely, the early repayment of term loans is generally viewed as a positive indicator.

53. (B) I, II, and III only

The standard procedure for a credit audit requires it to be conducted at the branch where the loan was appraised. The auditors must have access to the main operative credit limits and should request reports on the conduct of any allocated limits from other branches. While visiting the borrower's premises is a separate inspection task, it is not a mandatory audit requirement.

54. (C) Frequent overdrawings and delays in submission of stock statements are considered unsatisfactory features.

Unsatisfactory features in an account's conduct include frequent overdrawings beyond sanctioned limits and delays in submitting required stock statements. These behaviors indicate poor financial discipline and are red flags for credit monitoring teams. Conversely, routing transactions through other banks is viewed negatively, and the invocation of bank guarantees is a sign of financial trouble rather than health for borrowers.

55. (A) I, II, and III only

To strengthen a monitoring system after identifying problems, a bank may increase the frequency of godown inspections to better track collateral. It should also ensure that all sale proceeds are routed through the bank to capture cash flows. Additionally, switching from a hypothecation arrangement to a more restrictive pledge of stock can provide the bank with greater control over security.

56. (A) The credit audit function may be assigned to a specific Department or the Inspection and Audit Department.

The structural organization of the credit audit function is flexible and can be assigned either to a dedicated department or integrated into the existing inspection and audit department. This allows for internal expertise and independence. It is not an outsourced function, nor should it be handled by the same line functionaries who appraised the loan, as independent review is essential.

57. (D) I, II, III, IV, and V

Credit audit aims to improve the overall quality of the credit portfolio by reviewing sanction processes, ensuring regulatory compliance, and providing an independent assessment of credit risk. Furthermore, it focuses on identifying early warning signals to suggest remedial actions. By covering all these areas, the credit audit function ensures that both individual loans and the broader portfolio are managed effectively.

58. (B) Harsh action is strictly prohibited even if business deterioration continues.

Credit control and monitoring are vital for ensuring that bank funds are used as intended and that the business remains viable. If a borrower's business continues to deteriorate despite initial interventions, the bank is not prohibited from taking harsh measures. In such cases, recalling the advance may be necessary to protect the bank's capital and prevent further losses from occurring.

59. (A) I, II, III, IV, and V

During a credit audit, multiple factors are evaluated, including compliance with internal bank policies and the adequacy of loan documentation. The audit also reviews the methodology for credit risk assessment and provides feedback on regulatory compliance. Furthermore, it involves forecasting future events based on current trends to provide a forward-looking perspective on the health and stability of the credit portfolio.

- 77.** (B) Kappa Ltd: 3 months, Lambda Ltd: 6 months, Sigma Ltd: 1 year.

The frequency of review under the Loan Review Mechanism is based on the risk level of the account. High-risk accounts are monitored most frequently, every three months. Average-risk accounts are reviewed every six months, and low-risk accounts are reviewed on an annual basis. This tiered approach ensures that bank resources are focused on the areas of highest potential credit loss and volatility.

- 78.** (B) P-2, Q-1, R-4, S-3

The credit audit function involves several distinct actions. One key objective is reviewing the sanction process for large loans, while a core department function is maintaining a database of audited advances. The procedure for these audits is typically conducted on-site at the branch level. Additionally, the scope of the audit is broadened to look at the overall portfolio quality.

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- 79.** (D) The bank must subject title deeds to periodic legal audit and re-verification.

For credit exposures of five crores and above, such as the eight-crore exposure of Omega Developers, banks are subject to specific regulatory requirements. They must conduct periodic legal audits and re-verify the title deeds of the underlying security with relevant authorities. This ensures that the bank's interest in the real estate properties remains legally valid and enforceable until the loan is repaid.

- 80.** (D) Periodic Visits - Finding stock positions and verifying the bank's charge.

Periodic visits to a borrower's premises serve as a vital monitoring tool. Their primary utility is to confirm the actual activity levels of the business and find the current position of the stocks charged to the bank. Additionally, these visits allow bank officials to verify that the bank's charge is prominently displayed, ensuring the security remains intact and legally recognized.

- (B) Facility Rating determines the Probability of Default, while Borrower Rating assesses the Loss Given Default.
- (C) Both Borrower Rating and Facility Rating are exclusively used to assess Loss Given Default.
- (D) Both Borrower Rating and Facility Rating are exclusively used to assess Probability of Default.

Oct/Nov 2024

- 26.** Identify the correct pair associating a regulatory repository with its specific reporting function.
- (A) CIBIL – Recording and reporting the current account balances of all individual retail customers.
 - (B) CRILC – Reporting exposures of Rs. 5 crores and above, including their SMA classification.
 - (C) ISDA – Maintaining a central database of all agricultural crop loans for the banking industry.
 - (D) SMERA – Functioning as a Special Purpose Vehicle (SPV) for issuing various Credit Linked Notes.

May/June 2017

- 27.** Consider the following risk categories scored in credit rating methodologies:
- I. Promoters/Management aspects and the securities available
 - II. Financial aspects based on analysis of financial statements
 - III. Business/Industry/project risks
 - IV. The sovereign rating of the country of operations
 - V. Internal HR policies of the lending bank
- Which of the above category(ies) form the broad basis for scoring risk areas in a proposal?
- (A) I, II, and III
 - (B) II, III, and IV
 - (C) I, III, and V
 - (D) I, IV, and V

Oct/Nov 2005

- 28.** Consider the following statements regarding the verification of directors' identities:
- I. If a director's name appears similar to a name in the wilful defaulters list, banks must wrongfully deny credit facilities without further verification to be safe.
 - II. In case of doubt arising from identical

names, banks should use independent sources for confirmation of identity using DIN/PAN.

Which of the statements is/are correct?

- (A) Only I is correct
- (B) Only II is correct
- (C) Both I and II are correct
- (D) Neither I nor II is correct

May/June 2020

- 29.** The following question consists of two statements, one labelled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): If an anticipated credit risk does not materialise, the return from a hedged asset will be lower than it would have been without hedging.

Reason (R): Credit derivatives act as a form of insurance that comes at a premium cost, thereby reducing the net yield of the asset.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2015

- 30.** Consider the following statements regarding the acquisition of credit information from a Credit Information Company (CIC):
- I. Under the 2005 Act, a CIC could only provide information that was supplied by its members.
 - II. A Specified User obtaining information might face problems of incomplete credit history if the borrower had exposures with non-member institutions.
 - III. The RBI directive to mandate membership in all CICs was issued to overcome the problem of incomplete/inaccurate credit information.

Which of the above statement(s) is/are correct?

- (A) I and II

May/June 2005

7. Match the risk categories in List I with their corresponding classifications in List II.

List I: (Risk Category)

- P. Portfolio Risk
Q. Transaction Risk
R. External Environment
S. Internal Environment

List II: (Classification)

1. Incorporates Default Risk, Spread Risk, Downgrade Risk, and Recovery Risk
2. Originates from factors leading to Transaction Risk
3. Originates from factors leading to Portfolio Risk
4. Incorporates Concentration Risk and Industry Risk

- (A) P-4, Q-1, R-3, S-2
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-2, R-4, S-1
(D) P-2, Q-3, R-1, S-4

Oct/Nov 2014

8. Match the Credit Information System parameters in List I with their corresponding monetary thresholds in List II.

List I: (Parameter)

- P. Maximum one-time membership fee charged by CICs
Q. Maximum annual fee charged by CICs
R. Threshold for reporting wilful defaulters lists to CICs
S. Aggregate exposure threshold for reporting to CRILC

List II: (Monetary Threshold)

1. Rs. 25 lakh and above
2. Rs. 5 crores and above
3. Rs. 10,000
4. Rs. 5,000

- (A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-1, Q-2, R-4, S-3
(D) P-2, Q-1, R-3, S-4

May/June 2023

9. Which of the following is identified as an internal factor affecting credit risk?

- (A) Excessive lending to cyclical industries
(B) Protectionist policies of foreign nations
(C) Exchange rate and interest rate fluctuations
(D) Adverse political risks in the domestic market

Oct/Nov 2009

10. A commercial bank has provided a corporate borrower with a fund-based loan of Rs. 3 crores and a non-fund based guarantee limit of Rs. 2.5 crores. Does the bank need to report this borrower to CRILC, and why?

- (A) No, because the fund-based exposure alone does not cross the established limit of Rs. 5 crores.
(B) Yes, because the aggregate exposure is Rs. 5.5 crores, meeting the reporting threshold.
(C) No, because CRILC reporting only considers non-fund based limits if they have already devolved.
(D) Yes, because all corporate exposures regardless of their size must be reported to the repository.

May/June 2016

11. The following question consists of two statements, one labelled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): External factors affecting credit risk appear similar to market risks but have a fundamentally different mechanism of impact.
Reason (R): Market risks directly affect the bank, whereas external factors affect the businesses of the customers, thereby impairing the quality of the credit portfolio.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2025

12. Consider the following statements regarding the reporting of current account balances:

- I. Banks must report the outstanding current account balance of customers of Rs. 1 crore and above.
II. Reporting is required whether the balance is a debit or a credit.
III. A bank must report the balance only if the

CHAPTER 23

Risk Management and Credit Rating

NODIA

May/June 2011

1. A multinational corporation utilizes a non-fund-based credit facility of Rs. 3 crores from a bank. It also maintains a current account with the same bank, showing an outstanding credit balance of Rs. 1.2 crores. Does the bank have a regulatory obligation to report this current account balance, and under what specific parameter?

- (A) No, because the total credit facility provided is below the mandatory CRILC threshold of Rs. 5 crores.
- (B) Yes, because current account balances of Rs. 1 crore and above must be reported to the repository.
- (C) No, because reporting applies exclusively to debit balances that indicate active overdraft facilities.
- (D) Yes, but it should only be reported to a Credit Information Company rather than as a Return parameter.

Oct/Nov 2018

2. At what frequency should the Boards of banks periodically review the accounts classified as wilful defaulters or non-cooperative borrowers?

- (A) On a monthly basis
- (B) On a quarterly basis
- (C) On a half-yearly basis
- (D) On an annual basis

May/June 2025

3. Which scenario best exemplifies the manifestation of market risk in a banking portfolio?

- (A) A bank suffers financial losses due to fluctuations in exchange rates and interest rates.
- (B) A major borrower defaults on a term loan due to an economic downturn.
- (C) A system failure causes a delay in clearing operations, leading to regulatory penalties.
- (D) A bank incurs a loss because collateral security could not be enforced due to

faulty loan structuring.

Oct/Nov 2007

4. A working group formed in 1999 recommended the setup of a Credit Information Bureau. Following this, Credit Information Bureau (India) Ltd. (CIBIL) was established in January 2001. Which two institutions were primarily in association to set up CIBIL?

- (A) State Bank of India and ICICI
- (B) IDBI and ICICI
- (C) Reserve Bank of India and NABARD
- (D) State Bank of India and HDFC

May/June 2019

5. A commercial bank issues a Letter of Credit (LC) on behalf of an importing client. The overseas supplier ships the goods and presents the documents, but the client subsequently declares bankruptcy and cannot reimburse the bank. Which category of risk has the bank encountered?

- (A) Transaction Risk
- (B) Market Risk
- (C) Operational Risk
- (D) Credit Risk

Oct/Nov 2022

6. Arrange the following events regarding the evolution of Credit Information Companies in the correct chronological order:

- I. Passing of the Credit Information Companies (Regulation) Act.
- II. Constitution of a Working Group headed by Shri N.H. Siddiqui.
- III. RBI directive mandating all Credit Institutions to become members of all CICs.
- IV. Setting up of Credit Information Bureau (India) Ltd. (CIBIL).

- (A) II, IV, I, III
- (B) II, I, IV, III
- (C) IV, II, I, III
- (D) I, II, IV, III

May/June 2018

19. Consider the following statements regarding the objectives of quantifying risk by way of a credit rating:
- To decide about accepting, rejecting, or accepting a proposal with modifications.
 - To determine the pricing and the rate of interest to be charged.
 - To assist in the macro evaluation of the total credit portfolio for assessing provisioning requirements.
 - To completely eliminate the need for an efficient recovery machinery.
- Which of the above statement(s) is/are correct?
- I, II, and III
 - I, III, and IV
 - II, III, and IV
 - I, II, and IV

Oct/Nov 2016

20. Which statement is incorrect regarding the review process of credit ratings (ECR, BR, and FR)?
- Ratings are periodically reviewed for upgrade, downgrade, or maintenance at the same level.
 - The dynamic economic, political, and market scenarios justify the periodic review of ratings.
 - Borrower and Facility ratings must be reassessed as facts and environmental factors evolve.
 - Ratings must remain static throughout the loan tenor to ensure accounting consistency.

May/June 2014

21. How many domestic Credit Rating Agencies (CRAs) are accredited by the RBI?
- Three
 - Four
 - Five
 - Seven

Oct/Nov 2019

22. What is the most appropriate distinction regarding the transfer of risk in credit derivatives?
- Credit derivatives involve transferring the physical asset to the protection buyer to mitigate risk.

- Credit derivatives eliminate the risk seller's obligation to monitor the borrower entirely.
- Credit derivatives hedge the risks inherent in an asset without transferring the asset itself.
- Credit derivatives are strictly designed to transfer operational risks rather than credit risks.

May/June 2009

23. Consider the following statements regarding the regulatory approach to credit ratings:
- RBI mandates different risk weights to assets based on their external rating given by accredited rating agencies.
 - All banks are currently equipped with historical empirical data to exclusively use the Advanced Internal Rating Based approach for arriving at Probability of Default.
- Which of the statements is/are correct?
- Only I is correct
 - Only II is correct
 - Both I and II are correct
 - Neither I nor II is correct

Oct/Nov 2011

24. What is the most appropriate reason RBI advises lenders to carry out independent and objective credit appraisals rather than depending entirely on outside consultants?
- Lenders must maintain diligence and avoid reliance on the borrower's in-house consultants.
 - Outside consultants typically charge high fees that reduce the net interest yield of the bank loan.
 - External consultants usually lack access to the PAN Master records of the statutory Returns.
 - The Reserve Bank of India strictly prohibits the operation of any financial consulting firms.

May/June 2010

25. Which statement accurately reflects the methodology of credit rating regarding default metrics?
- Borrower Rating determines the Probability of Default, while Facility Rating assesses the Loss Given Default.

Which of the statements is/are correct?

- (A) Only I is correct
- (B) Only II is correct
- (C) Both I and II are correct
- (D) Neither I nor II is correct

Oct/Nov 2008

50. Identify the correct pair representing a specific credit risk factor and its primary environmental classification.

- (A) Downgrade Risk – External Environment
- (B) Industry Risk – Internal Environment
- (C) Default Risk – Internal Environment
- (D) Concentration Risk – External Environment

May/June 2024

51. Which of the following exposures is NOT exempted from reporting to the Central Repository of Information on Large Credits (CRILC)?

- (A) Fund-based loans of Rs. 6 crores to manufacturing units.
- (B) Specific interbank exposures to financial institutions like NABARD.
- (C) Specific interbank exposures to financial institutions like SIDBI.
- (D) Agricultural crop loans regardless of the exposure size.

Oct/Nov 2021

52. Bank XYZ heavily concentrated its lending portfolio in the commercial real estate sector. During an economic slowdown, real estate prices plummeted, causing widespread defaults among its borrowers. What specific type of risk did Bank XYZ fail to manage effectively?

- (A) Spread Risk
- (B) Downgrade Risk
- (C) Operational Risk
- (D) Concentration Risk

May/June 2006

53. A corporate entity holds a current account with Bank M having a credit balance of Rs. 1.5 crores. The entity has no loans or credit facilities from Bank M. Under the RBI guidelines for reporting, what action must Bank M take?

- (A) Exclude the entity from reporting because there is no fund-based or non-fund-based exposure.

- (B) Transfer the balance to an escrow account to strictly monitor the end-use of corporate funds.

- (C) Mandatorily issue a credit card to classify the account under the category of credit exposure.

- (D) Report the current account balance in the Return, despite the absence of credit exposure.

Oct/Nov 2017

54. Which of the following is NOT an action taken at the micro level to mitigate credit risks?

- (A) Enhancing the rigor of credit appraisal standards and internal sanctioning processes.
- (B) Establishing robust escrow mechanisms for the close monitoring of large-value accounts.
- (C) Formulating policies for stress resolution like rectification and restructuring.
- (D) Utilizing comprehensive consortium or multiple banking arrangements for large exposures.

May/June 2013

55. How is credit risk strictly defined in the context of fund-based credit facilities?

- (A) Financial risks resulting from the unpredictable and uncontrollable movements of interest rates.
- (B) Non-payment of principal and interest by a borrower under the agreed repayment terms.
- (C) Financial losses emanating from the failure of internal people or organizational processes.
- (D) The specific risk of a counterparty downgrading its external credit rating during the tenor.

Oct/Nov 2012

56. Match the credit risk mitigation tools in List I with their corresponding strategic classifications in List II.

List I: (Tool)

- P. Stress resolution policies including write-off
- Q. Use of credit default swaps
- R. Reviewing the structure of discretionary powers
- S. Obtention of corporate guarantees

- (B) II and III
- (C) I and III
- (D) I, II, and III

May/June 2013

- 31.** Consider the following statements regarding the features of Credit Default Swaps (CDS):
- I. CDS is offered on conventional bank loans as well as publicly traded debt.
 - II. Default protection under a CDS is limited to the Principal, and interest is not covered.
 - III. The credit events in a CDS are defined by the International Swaps and Derivatives Association (ISDA).
 - IV. As per RBI guidelines, only plain vanilla CDSs are permitted.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III
 - (B) II, III, and IV
 - (C) I, III, and IV
 - (D) I, II, and IV

Oct/Nov 2021

- 32.** Consider the following components relevant to the reporting mechanism of Credit Information Companies:
- I. Suit-filed accounts of wilful defaulters of Rs. 25 lakh and above.
 - II. Non-suit filed accounts of wilful defaulters of Rs. 25 lakh and above.
 - III. Updating credit information regularly on a monthly basis or at mutually agreed shorter intervals.
 - IV. Exemption of historical data submission to save server bandwidth.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III
 - (B) II, III, and IV
 - (C) I, III, and IV
 - (D) I, II, and IV

May/June 2024

- 33.** Which statement incorrectly reflects the Reserve Bank of India's stance on credit derivatives?
- (A) RBI worries when banks start selling credit protection to other lenders.
 - (B) RBI is apprehensive when banks hedge their credit risk by purchasing risk

protection.

- (C) Derivative instruments can sometimes become so complex that the resulting liability is much more than anticipated.
- (D) RBI favors the slow growth of these derivatives in the Indian financial market.

Oct/Nov 2008

- 34.** Consider the following elements categorized under internal and external environments affecting credit risk:
- I. Default Risk
 - II. Exchange rate fluctuations
 - III. Concentration Risk
 - IV. Spread Risk
 - V. Government protectionist policies
- Which of the above element(s) consists purely of factors or risks associated with the internal environment of credit risk analysis?
- (A) I, III, and IV
 - (B) II, IV, and V
 - (C) I, II, and III
 - (D) III, IV, and V

May/June 2006

- 35.** Which of the following is NOT a credit event defined by the International Swaps and Derivatives Association (ISDA)?
- (A) Management replacement
 - (B) Bankruptcy
 - (C) Obligation acceleration
 - (D) Obligation repudiation/moratorium

Oct/Nov 2017

- 36.** The following question consists of two statements, one labelled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.
- Assertion (A): Banks are required to include the Director Identification Number (DIN) as one of the fields in the data submitted to Credit Information Companies.
- Reason (R): This ensures that directors are correctly identified, preventing situations where persons with similar names are wrongfully denied credit facilities on the grounds of being wilful defaulters.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are

true, but Reason (R) is not the correct explanation of Assertion (A).

- (C) Assertion (A) is true, but Reason (R) is false.
 (D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

37. What is the most appropriate reason for lenders to ascertain the source and quality of equity capital brought in by promoters in infrastructure projects?
 (A) To calculate the exact tax liabilities and fiscal obligations of the borrowing corporate entity.
 (B) To determine the dividend payout ratio for the shareholders of the parent company's holding.
 (C) To ensure comprehensive compliance with the prevailing foreign exchange management regulations.
 (D) To prevent multiple leveraging that effectively camouflages the Debt/Equity ratio.

Oct/Nov 2013

38. A manufacturing company faces a sudden liquidity crunch due to an unforeseen disruption in its supply chain, threatening its ability to service its term loan. To mitigate this credit risk at the micro level and avoid a worst-case scenario, what immediate formalized policy framework should the lending bank invoke?
 (A) Consortium banking mobilization
 (B) Issuance of Credit Linked Notes
 (C) Stress resolution policies such as restructuring
 (D) Modification of macro-level industry exposure limits

May/June 2015

39. Which of the following is NOT a credit event defined by the International Swaps and Derivatives Association (ISDA)?
 (A) Management replacement
 (B) Bankruptcy
 (C) Obligation acceleration
 (D) Obligation repudiation/moratorium

Oct/Nov 2012

40. Bank Alpha starts heavily selling credit protection to other lenders through complex

credit derivative structures, aiming to earn high premium revenues. An unprecedented industry-wide bankruptcy wave occurs, triggering mass default events. Bank Alpha finds its liabilities multiplying beyond its capital reserves. Which fundamental concept does this catastrophic event illustrate?

- (A) The characterization of derivatives as weapons of mass financial destruction due to high risk.
 (B) The high efficiency of the ISDA regulatory framework in preventing large-scale credit losses.
 (C) The successful dispersion of transaction risk through the use of macro-level mitigation tools.
 (D) The inherent superiority of the Advanced Internal Rating Based approach for capital allocation.

May/June 2022

41. The Board of Directors of a bank notices a rapid deterioration in asset quality. Under the RBI guidelines on Board Oversight, what specific tool should the Board mandate the proactive use of for early recognition and resolution of these problems?
 (A) Central Repository of Information on Large Credits (CRILC)
 (B) International Swaps and Derivatives Association (ISDA)
 (C) Securities and Exchange Board of India (SEBI) guidelines
 (D) Foreign Exchange Management Act (FEMA) provisions

Oct/Nov 2023

42. What accurately defines operational risk within the business of banking?
 (A) Risks emanating from adverse and undesired but uncontrollable play of market forces.
 (B) Losses due to frauds, disruption of business due to natural calamities, and failure of people or processes.
 (C) The non-payment of principal and interest by a borrower as per agreed repayment terms.
 (D) The inability of a customer to reimburse the bank fully or partially in case of invocation of a guarantee.

May/June 2023

43. Which statement accurately identifies the imperative need for establishing the credit information system?
- (A) To arrest fresh NPA accretion by alerting institutions against defaulting borrowers.
 - (B) To facilitate the marketing of mutual fund products to high net-worth individuals and corporate clients.
 - (C) To mandate the compulsory issuance of credit default swaps for all retail and commercial loans.
 - (D) To centralize the management of foreign exchange reserves among all the member banks.

Oct/Nov 2015

44. Which of the following is NOT an example of credit risk arising from non-fund based limits?
- (A) The customer fails to reimburse the bank following the official invocation of a financial guarantee.
 - (B) The customer refuses to make payment to the bank upon the final devolvement of a Letter of Credit.
 - (C) The customer fails to pay the monthly interest instalment on a working capital term loan.
 - (D) The customer is unable to meet specific financial commitments relating to statutory dues to the lender.

May/June 2014

45. Consider the following statements based on the Credit Information Companies (Regulation) Act, 2005 and RBI directives:
- I. Every Credit Institution shall become a member of at least one CIC.
 - II. A CIC may seek and obtain credit information from its members only.
 - III. RBI directed on January 15, 2015, that all Credit Institutions shall become members of all CICs.
 - IV. CICs must update the credit information collected at least once every financial year.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III
 - (B) II, III, and IV
 - (C) I, III, and IV
 - (D) I, II, and IV

Oct/Nov 2019

46. Consider the following statements regarding the distinction between market risks and external factors affecting credit risk:
- I. Market risks directly affect a bank, whereas external factors affect the businesses of the customers.
 - II. Both market risks and external factors ultimately impair the quality of the bank's credit portfolio.
- Which of the statements is/are correct?
- (A) Only I is correct
 - (B) Only II is correct
 - (C) Both I and II are correct
 - (D) Neither I nor II is correct

May/June 2012

47. As per the RBI Circular dated 6th February 2015, what is the maximum restricted amount for the one-time membership fee and the annual fee charged by CICs to Credit Institutions, respectively?
- (A) Rs. 5,000 and Rs. 10,000
 - (B) Rs. 5,000 and Rs. 5,000
 - (C) Rs. 25,000 and Rs. 10,000
 - (D) Rs. 10,000 and Rs. 5,000

Oct/Nov 2022

48. Which of the following statements incorrectly describes the external factors affecting credit risk?
- (A) They reduce the customer's capability to honour the terms of financial transactions with the bank.
 - (B) They include government policies, protectionist policies of other countries, and political risks.
 - (C) They look similar to market risks but affect the businesses of the customers rather than directly affecting the bank.
 - (D) They are caused by the bank's own deficiencies, such as ignoring the purpose of a loan.

May/June 2005

49. Consider the following statements regarding the reporting of wilful defaulters:
- I. Banks/FIs should submit the list of suit-filed and non-suit filed accounts of wilful defaulters of Rs. 25 lakh and above.
 - II. This submission must be done on an annual basis to ensure data accuracy.

client has availed a minimum fund-based exposure of Rs. 5 crores from the bank.

Which of the above statement(s) is/are correct?

- (A) I and II
- (B) II and III
- (C) I and III
- (D) I, II, and III

May/June 2012

13. Consider the following statements regarding the macro-level mitigation of credit risk:

- I. It involves fixing internal limits for aggregate commitments to specific sectors.
- II. It includes frequent reviews of exposure norms to single and group borrowers.
- III. It entails the obtention of collateral security and personal guarantees for individual proposals.

Which of the above statement(s) is/are correct?

- (A) I and II
- (B) II and III
- (C) I and III
- (D) I, II, and III

Oct/Nov 2020

14. Arrange the following steps involved in the mechanism of Credit Linked Notes (CLN) in the correct chronological order:

- I. General investors receive fixed or variable returns on the notes during its life.
- II. A Special Purpose Vehicle (SPV) issues notes linked to the underlying credit to general investors.
- III. The SPV uses the money received from investors to buy high quality securities.
- IV. On maturity, the securities are sold and money is returned to the investors (assuming no default).

- (A) II, III, I, IV
- (B) III, II, IV, I
- (C) II, I, III, IV
- (D) I, II, IV, III

May/June 2007

15. What is the most appropriate overarching objective of credit risk management?

- (A) To eliminate the probability of default across all borrowing segments and credit portfolios.
- (B) To ensure that all loan proposals are

backed by collateral equal to twice the total exposure.

- (C) To shift the entire burden of recovery to independent credit rating agencies.
- (D) To limit risk within acceptable levels while maximizing the risk-adjusted rate of return.

Oct/Nov 2010

16. Protectionist policies of foreign countries that negatively impact the export business of a domestic borrower represent which kind of risk factor for the lending bank?

- (A) An internal factor leading to Transaction Risk.
- (B) A direct market risk that requires adjustment of the bank's base lending rate.
- (C) An operational risk originating from a failure of the borrower's internal processes.
- (D) An external factor affecting the borrower's capability to honour financial transactions.

May/June 2021

17. A bank is assessing a Rs. 500 crore infrastructure project. Given the immense size of the exposure, the bank decides to invite three other banks to share the funding requirement. Which risk mitigation strategy is the bank employing?

- (A) Fixing internal limits for aggregate commitments
- (B) Consortium/multiple banking
- (C) Securitization of debt
- (D) Escrow mechanism enforcement

Oct/Nov 2006

18. In the context of micro-level risk mitigation, what is the primary function of utilizing an escrow mechanism?

- (A) To evaluate the broad macro-economic environment currently affecting the industry sector.
- (B) To transfer the financial asset from the bank's balance sheet to a Special Purpose Vehicle.
- (C) To secure control over cash flows to ensure the timely servicing of debt obligations.
- (D) To replace the requirement of a corporate guarantee from the borrower's parent company.

List II: (Classification)

1. A macro level tool for periodic review and loss management
2. A micro level tool for dispersion of risk in large value accounts
3. A macro level tool to control internal operational frameworks
4. A micro level tool to secure individual loan proposals

- (A) P-1, Q-2, R-3, S-4
 (B) P-2, Q-1, R-4, S-3
 (C) P-3, Q-4, R-1, S-2
 (D) P-4, Q-3, R-2, S-1

May/June 2008

57. Which statement correctly identifies the purpose of a bank fixing internal limits for aggregate commitments to specific sectors?
- (A) To ensure exposures are spread across sectors and losses remain within tolerable limits.
 (B) To provide a mathematical guarantee of zero default rates across all bank portfolios.
 (C) To eliminate the requirement of obtaining collateral security for all individual loan assets.
 (D) To bypass the regulatory requirement of external credit ratings for large industrial accounts.

Oct/Nov 2013

58. What is the primary purpose of a credit rating in the context of loan appraisal?
- (A) To provide an absolute guarantee of the recovery of loan dues through third-party agencies.
 (B) To measure and quantify the credit risk levels inherent in a specific loan proposal.
 (C) To determine the precise market value of all collateral assets offered by the borrower.
 (D) To fulfill the mandatory statutory requirements of the Credit Information Companies Act.

May/June 2015

59. Which of the following statements incorrectly describes the use of credit ratings in loan pricing?
- (A) Charging identical interest rates to all sector borrowers regardless of their individual ratings.
 (B) Applying a higher rate of interest to

borrowers who have a significantly higher risk rating.

- (C) Utilizing the quantification of risk to assist the bank in determining the final pricing of the loan.
 (D) Deciding whether to accept a proposal based on the inclusion of specific restrictive covenants.

Oct/Nov 2023

60. Why might a bank appraise two identical industrial projects, promoted by different management teams, as having different credit risks?
- (A) Credit risk is determined exclusively by the total capital cost of the project, regardless of promoters.
 (B) Regulatory mandates require identical risk weights for similar projects irrespective of management dynamics.
 (C) Risk levels depend on unique project features and the specific expertise of the promoters.
 (D) Guidelines prohibit assigning the same credit rating to any two separate entities in the same industry.

May/June 2022

61. Which of the following is NOT one of the broad categories of risk areas normally scored in a bank's credit rating model?
- (A) Aspects related to the promoters, management capability, and the quality of available securities.
 (B) The personal healthcare history of the borrowing company's shareholders.
 (C) Inherent business risks, industry-specific challenges, and the unique risks of the project.
 (D) Financial aspects based on a thorough analysis of audited financial statements and ratios.

Oct/Nov 2010

62. Identify the incorrect pair regarding Credit Rating Agencies and their categorization.
- (A) CARE Limited – Categorized as a domestic Credit Rating Agency (CRA) in India.
 (B) FITCH – Categorized as an international agency providing global credit assessments.
 (C) Acuite Ratings and Research Limited – Classified as an International CRA.

NODIA

Key elements in this category include default risk, concentration risk, and spread risk. Unlike external factors such as exchange rate fluctuations or government protectionist policies, these internal risks can be managed through effective credit policies and robust internal controls.

35. (A) Management replacement

The International Swaps and Derivatives Association identifies specific credit events that trigger obligations under a swap agreement. These standardized events include bankruptcy, failure to pay, obligation acceleration, and obligation repudiation or moratorium. Replacing a company's management team is not recognized as a credit event because it does not directly represent a failure to meet financial obligations according to standard definitions.

36. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Banks are mandated to include the Director Identification Number in the data submitted to Credit Information Companies to ensure accurate identification. This requirement is crucial because it helps distinguish between individuals with similar names. By using unique identifiers like DIN, the system prevents the wrongful denial of credit to persons who are not actually listed as wilful defaulters.

37. (D) To prevent multiple leveraging that effectively camouflages the Debt/Equity ratio. Lenders must rigorously ascertain the source and quality of equity capital provided by promoters in large infrastructure projects. This investigation is necessary to prevent the practice of multiple leveraging, where debt from a parent company is infused as equity into a subsidiary. Such practices can camouflage the actual debt-to-equity ratio and obscure the project's true financial risk profile.

38. (C) Stress resolution policies such as restructuring

When a borrower faces a sudden liquidity crunch that threatens their ability to service a loan, banks should invoke formalized stress resolution policies. These micro-level mitigation tools include restructuring and rectification

strategies designed to provide temporary relief and ensure the long-term viability of the account. Such actions aim to resolve financial stress before it leads to a total default.

39. (B) Award a separate mandate to the borrower's existing auditors for this specific certification.

To ensure the proper end-use of funds and prevent the diversion of credit, the Reserve Bank of India advises lenders to utilize auditing expertise. Banks are encouraged to award a separate and specific mandate to the borrower's existing auditors for the certification of fund utilization. This focused approach provides a professional verification layer to safeguard against various financial irregularities.

40. (A) The characterization of derivatives as weapons of mass financial destruction due to high risk.

The scenario where a bank's liabilities multiply uncontrollably due to mass defaults in complex credit derivative structures illustrates the extreme risks associated with selling credit protection. Such catastrophic events highlight why these instruments are sometimes referred to as weapons of mass financial destruction. They demonstrate how unanticipated liabilities can quickly exceed a bank's capital reserves during systemic financial crises.

41. (A) Central Repository of Information on Large Credits (CRILC)

Under regulatory guidelines for board oversight, the Boards of Directors are expected to proactively monitor asset quality using specialized reporting tools. The Central Repository of Information on Large Credits is the specific mechanism mandated for the early recognition and resolution of credit problems. This repository allows boards to track large exposures and take necessary steps to arrest deteriorating quality.

42. (B) Losses due to frauds, disruption of business due to natural calamities, and failure of people or processes.

Operational risk in banking is defined as the potential for financial loss resulting from inadequate or failed internal processes, people, and systems. This category includes losses due to internal and external frauds, disruptions

fixed interest rates.

- (C) A specific regulatory tool used by the RBI to cap the aggregate exposure a bank has in any industry.
- (D) A bilateral contract where a risk seller pays a premium for credit default protection.

May/June 2010

69. Consider the following statements regarding the Board's role in asset quality management:

- I. Boards should take necessary steps to arrest deteriorating asset quality in their books.
- II. Boards should put in place a policy for timely submission of credit information to CRILC.
- III. Boards are advised to classify all borrowers as non-cooperative automatically if project delays occur.

Which of the above statement(s) is/are correct?

- (A) I and II
- (B) II and III
- (C) I and III
- (D) I, II, and III

Oct/Nov 2011

70. A lending bank (Risk Seller) enters into a Credit Default Swap with an insurance entity (Protection Seller) covering a corporate bond. If the corporate bond issuer fails to pay the principal amount, what is the mandatory action for the lending bank under the CDS agreement?

- (A) The lending bank must transfer its entire operational infrastructure to the Protection Seller.
- (B) The lending bank must immediately write off the asset without claiming the protection amount.
- (C) The lending bank must hand over the duly endorsed debt instrument to the Protection Seller.
- (D) The lending bank must renegotiate the loan repayment schedule with the bond issuer.

May/June 2009

71. Consider the following statements regarding the RBI's January 15, 2015 directive on Credit Information Companies (CICs):

- I. It directed all Credit Institutions to

become members of all CICs.

- II. It restricted the one-time membership fee charged by CICs to Rs. 10,000 each.
- III. It allowed CICs to charge an unlimited annual fee to ensure data quality.
- IV. It required CICs to submit data, including historical data, to the CICs.

Which of the above statement(s) is/are correct?

- (A) I, II, and III
- (B) I, II, and IV
- (C) II, III, and IV
- (D) I, III, and IV

Oct/Nov 2018

72. In the mechanism of Credit Linked Notes (CLN), how does the SPV utilize the funds raised from general investors?

- (A) The SPV uses the money to buy high quality securities.
- (B) The SPV uses the money to directly fund the working capital of the reference entity.
- (C) The SPV uses the money to pay periodic premiums to the risk seller.
- (D) The SPV deposits the money entirely with the Reserve Bank of India as a statutory reserve.

May/June 2025

73. Consider the following details concerning CRILC reporting:

- I. Collect, store, and disseminate credit data to lenders.
- II. Reporting of classification of an account as SMA.
- III. Reporting outstanding current account balance of Rs. 1 crore and above.
- IV. Exemption of interbank exposures to EXIM Bank and NHB.
- V. Mandatory reporting of crop loans above Rs. 5 crores.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV
- (B) II, III, IV, and V
- (C) I, III, IV, and V
- (D) I, II, IV, and V

Oct/Nov 2007

74. An SPV issues Credit Linked Notes to general investors and invests the proceeds in high-quality government bonds. If the underlying

17. (B) Consortium/multiple banking
To mitigate the risks associated with exceptionally large exposures, such as those in major infrastructure projects, banks often employ consortium or multiple banking arrangements. By inviting other financial institutions to share the funding requirement, a single bank can avoid over-concentration in one project. This strategy disperses the potential credit risk among several lenders, protecting the individual bank's capital reserves.
18. (C) To secure control over cash flows to ensure the timely servicing of debt obligations.
An escrow mechanism serves as a critical micro-level risk mitigation tool by providing the lender with control over the borrower's cash flows. In this arrangement, project revenues are channeled through a specific account to ensure that debt servicing obligations are prioritized and met on time. This proactive measure reduces the likelihood of default by securing the primary repayment source.
19. (A) I, II, and III
Quantifying credit risk through internal ratings serves several strategic purposes in the appraisal process. It helps in deciding whether to accept, reject, or modify a loan proposal and assists in determining appropriate interest rates based on risk levels. Furthermore, it aids in the macro evaluation of the total portfolio to assess necessary provisioning and capital adequacy requirements across the institution.
20. (D) Ratings must remain static throughout the loan tenor to ensure accounting consistency.
Credit ratings for borrowers and facilities must be dynamic to reflect changing economic, political, and market conditions. Periodic reviews are essential to determine whether a rating should be upgraded, downgraded, or maintained at its current level. Maintaining static ratings throughout the entire loan tenor is incorrect and would fail to capture the evolving risk profile of the credit exposure.
21. (D) Seven
The Reserve Bank of India has officially accredited seven domestic credit rating agencies to provide credit assessments for regulatory purposes. These agencies include CRISIL, ICRA, CARE, India Ratings and Research, Acuite Ratings and Research, Brickwork Ratings, and Infomeries Valuation and Rating. Banks utilize these external ratings to determine risk weights and capital adequacy requirements for their diverse lending portfolios.
22. (C) Credit derivatives hedge the risks inherent in an asset without transferring the asset itself. Credit derivatives provide a sophisticated mechanism for banks to manage risk by hedging the potential losses inherent in a financial asset. A key feature of these instruments is that they allow for the transfer of credit risk from the seller to the protection buyer without the actual transfer of the underlying physical asset or loan from the bank's balance sheet.
23. (A) Only I is correct
The Reserve Bank of India follows a standardized approach where risk weights assigned to assets are based on external ratings provided by accredited agencies. While the Basel framework allows for an Advanced Internal Rating Based approach, most banks are still in the process of building the necessary historical empirical data required to accurately calculate Probability of Default independently and reliably.
24. (A) Lenders must maintain diligence and avoid reliance on the borrower's in-house consultants. The Reserve Bank of India emphasizes the importance of banks conducting their own independent and objective credit appraisals. This guideline aims to ensure that lenders maintain proper due diligence and do not rely excessively on outside consultants or the borrower's in-house experts. Such independence is necessary to identify potential risks that might be overlooked or minimized by third-party advisors.
25. (A) Borrower Rating determines the Probability of Default, while Facility Rating assesses the Loss Given Default.
In the credit rating methodology, the borrower rating is primarily used to determine the probability of default, reflecting the entity's overall creditworthiness. In contrast, the facility rating assesses the loss given default. This second rating considers specific aspects of the loan structure, including the nature and value

explanation of Assertion (A).

- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2016

79. A renewable energy project was initially appraised and granted an excellent External Credit Rating (ECR). Two years later, the government unexpectedly altered its subsidy policies, significantly squeezing the project's profit margins. Based on the methodology of credit rating, what is the required procedural action by the bank?
- (A) Maintain the original rating since ratings must be fixed at the initial time of sanction.
- (B) Immediately execute the collateral security without conducting a review of the facility rating.
- (C) Automatically upgrade the project rating assuming the government will soon reverse its policy.
- (D) Periodically review the rating for potential downgrade due to evolving economic scenarios.

NODIA

Oct/Nov 2024

80. Consider the following statements regarding the engagement of auditors for end-use certification of funds:
- I. Banks can consider engaging their own auditors for specific certification purposes.
- II. Engaging external auditors entirely substitutes the bank's basic minimum own diligence in monitoring funds.
- III. Engaging own auditors aims to prevent the diversion and siphoning of funds by the borrowers.
- Which of the above statement(s) is/are correct?
- (A) I and II
- (B) II and III
- (C) I and III
- (D) I, II, and III

credit reference entity defaults, what happens to the government bonds purchased by the SPV?

- (A) They are sold and the proceeds are returned in full to the general investors.
- (B) They are used to pay the protection amount to the risk seller.
- (C) They are transferred to the defaulting reference entity to aid its recovery.
- (D) They are forfeited by the regulatory authorities.

May/June 2019

75. Consider the following statements regarding Credit Default Swaps (CDS):

- I. It is a bilateral contract offering protection against specified credit events.
- II. The buyer of protection pays a periodic premium to the protection seller.
- III. The bond issuer on whom the protection is offered is called the reference entity.
- IV. Interest is completely covered alongside the principal in standard plain vanilla CDS.
- V. Failure to pay and restructuring are among the credit events defined by ISDA.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and V
- (B) II, III, IV, and V
- (C) I, III, IV, and V
- (D) I, II, IV, and V

Oct/Nov 2014

76. Consider the following RBI guidelines on Credit Risk Management:

- I. Lenders must carry out independent credit appraisals and not depend on outside consultants.
- II. Sensitivity tests should inter alia include project delays and cost overruns for infrastructure projects.
- III. Lenders should ensure that debt of a parent company is infused as equity capital of the subsidiary.
- IV. Banks should include the Director Identification Number (DIN) in data submitted to CICs.
- V. Banks should deny credit facilities if names of directors appear merely similar to those in the wilful defaulters list, without further

verification.

Which of the above statement(s) is/are correct?

- (A) I, II, and IV
- (B) II, III, and V
- (C) I, III, and IV
- (D) I, II, and V

May/June 2007

77. The following question consists of two statements, one labelled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): Banks are exempted from reporting crop loans to CRILC regardless of the aggregate exposure size.

Reason (R): Banks need not report their interbank exposures to CRILC, including exposures to NABARD, SIDBI, EXIM Bank, and NHB.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2025

78. The following question consists of two statements, one labelled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): Banks must use independent sources for confirmation of the identity of directors rather than relying solely on the borrowing company's declaration.

Reason (R): Cases exist where persons whose names appear similar to directors in the wilful defaulters list are wrongfully denied credit facilities.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct

annual fee is five thousand rupees. Reporting requirements for wilful defaulters start at twenty-five lakh rupees, and the aggregate exposure threshold for reporting to the central repository of large credits is five crore rupees.

9. (A) Excessive lending to cyclical industries
Internal factors affecting credit risk originate from within the bank's own decision-making processes and lending policies. Examples include the lack of proper credit appraisal, inadequate monitoring of end-use of funds, and excessive lending to cyclical industries or specific geographical areas. These factors represent controllable risks that can be mitigated through better internal governance, robust credit standards, and portfolio diversification.
10. (B) Yes, because the aggregate exposure is Rs. 5.5 crores, meeting the reporting threshold. The Central Repository of Information on Large Credits requires the reporting of all borrowers with an aggregate exposure of five crore rupees and above. This exposure calculation includes both fund-based limits and non-fund-based credit facilities. Since the total commitment to the corporate borrower exceeds this mandatory threshold, the bank is legally obligated to submit the relevant credit data regularly.
11. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
While external factors affecting credit risk may appear similar to market risks, they operate through different mechanisms. Market risks directly impact the bank's financial position through price volatility. In contrast, external credit factors first negatively affect the business operations of the borrower, which subsequently leads to a deterioration in the quality of the bank's loan portfolio and repayment capacity.
12. (A) I and II
Regulatory guidelines mandate that banking institutions must report the outstanding balances of current accounts belonging to customers when the amount reaches one crore rupees or more. This reporting requirement is comprehensive, covering both debit and credit balances. It is not contingent upon the client having a specific minimum fund-based

exposure of five crore rupees from the same lending institution.

13. (A) I and II
Macro-level credit risk mitigation involves high-level strategic decisions designed to manage the overall portfolio health. This includes fixing internal limits for aggregate commitments to specific sectors and conducting frequent reviews of exposure norms for single and group borrowers. Obtaining collateral security and personal guarantees for individual proposals is considered a micro-level mitigation strategy focused strictly on specific loan transactions.
14. (II, III, I, IV)
The mechanism of Credit Linked Notes begins with a Special Purpose Vehicle issuing notes to investors. The funds raised are then utilized to purchase high-quality securities. Throughout the life of the notes, investors receive periodic returns. Finally, upon maturity, the securities are sold to return the principal to the investors, provided no credit event has occurred regarding the reference entity.
15. (D) To limit risk within acceptable levels while maximizing the risk-adjusted rate of return.
The primary goal of managing credit risk is not the absolute elimination of default, as some level of risk is inherent in lending. Instead, the focus is on maintaining exposures within acceptable levels defined by the board. This strategy aims to maximize the risk-adjusted rate of return by balancing potential losses with the income generated from the entire credit portfolio.
16. (D) An external factor affecting the borrower's capability to honour financial transactions.
Protectionist policies implemented by foreign nations constitute a significant external factor that can impair a domestic borrower's export business. Such factors are outside the control of both the bank and the borrower but directly impact the customer's financial health. This ultimately affects their capability to honor financial obligations and service their debts to the lending institution according to agreed terms.

ANSWERS

1. (B) Yes, because current account balances of Rs. 1 crore and above must be reported to the repository.
Banks maintain a mandatory reporting obligation to the Central Repository of Information on Large Credits for current account balances reaching the specific threshold of one crore rupees or more. This regulatory requirement applies irrespective of whether the account reflects a debit or credit balance, ensuring comprehensive monitoring of large exposures within the banking system to manage systemic risks.
2. (B) On a quarterly basis
The Reserve Bank of India mandates that the Boards of Directors at various banking institutions must conduct periodic reviews of accounts classified as wilful defaulters or non-cooperative borrowers. These high-level oversight sessions are required to take place on a quarterly basis to ensure timely monitoring, effective recovery strategies, and strict adherence to regulatory governance standards across the industry.
3. (A) A bank suffers financial losses due to fluctuations in exchange rates and interest rates.
Market risk represents the potential for financial losses arising from adverse movements in market variables such as interest rates, foreign exchange rates, and equity prices. Unlike credit risk which focuses on borrower default, market risk specifically targets the volatility of the entire banking portfolio in response to external economic shifts and fluctuating global financial conditions that impact asset values directly.
4. (D) State Bank of India and HDFC
The establishment of the Credit Information Bureau (India) Limited in January 2001 followed the specific recommendations of a working group formed in 1999. This crucial financial infrastructure was primarily set up through a strategic association between the State Bank of India and HDFC. These institutions collaborated to create a centralized repository for sharing vital credit information among lenders.
5. (D) Credit Risk
Credit risk encompasses the possibility of loss resulting from a borrower's failure to repay a loan or meet contractual obligations. In scenarios involving non-fund-based facilities like Letters of Credit, the risk materializes when the customer becomes insolvent and cannot reimburse the bank after a valid claim is presented. This reflects the borrower's fundamental inability to meet their financial commitments.
6. (A) II, IV, I, III
The evolution of credit information systems began with the constitution of the Siddiqui Working Group, followed by the actual establishment of CIBIL in 2001. Subsequently, the formal Credit Information Companies Regulation Act was passed in 2005. The process concluded with the 2015 regulatory directive mandating that all credit institutions must become members of every registered credit information company.
7. (A) P-4, Q-1, R-3, S-2
Portfolio risk involves broader issues such as concentration and industry-specific challenges, while transaction risk focuses on individual elements like default and recovery possibilities. Factors within the internal environment primarily influence transaction-level risks. Conversely, the external environment encompasses macroeconomic conditions that typically lead to the manifestation of portfolio risks across the bank's entire lending history, requiring different management strategies for each.
8. (A) P-3, Q-4, R-1, S-2
Credit Information Companies are regulated by specific monetary thresholds regarding fees and reporting. The maximum one-time membership fee is capped at ten thousand rupees, while the

of the collateral security available to mitigate potential losses during a default.

- 26.** (B) CRILC – Reporting exposures of Rs. 5 crores and above, including their SMA classification. The Central Repository of Information on Large Credits serves as a vital regulatory tool for reporting aggregate exposures of five crore rupees and above. This repository captures essential data, including the Special Mention Account classification of large borrowers. This information helps the regulator and individual lenders monitor credit quality across the banking system to identify early signs of financial stress.
- 27.** (A) I, II, and III
Bank credit rating models typically evaluate three broad categories of risk areas during the proposal appraisal process. These include management aspects focusing on promoters and available securities, financial aspects derived from the analysis of financial statements and ratios, and inherent business risks related to the project or industry. Scoring these areas allows for a comprehensive and objective quantification of credit risk.
- 28.** (B) Only II is correct
To prevent the wrongful denial of credit facilities to individuals with names similar to those on wilful defaulters lists, banks must conduct thorough verifications. Regulatory guidelines require lenders to use independent sources, such as the Director Identification Number or Permanent Account Number, to confirm a director's identity. Relying solely on name similarity without further evidence is considered an improper practice.
- 29.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Utilizing credit derivatives for risk mitigation involves a trade-off between security and yield. Since these instruments function as a form of insurance, the protection buyer must pay a premium to the seller. If the anticipated credit risk never materializes, the net return from the hedged asset will be lower than an unhedged asset due to these additional premium costs.

- 30.** (D) I, II, and III
Previously, Credit Information Companies could only provide data supplied by their specific member institutions, leading to incomplete credit histories if a borrower dealt with non-members. To address these inaccuracies, the Reserve Bank of India issued a directive in 2015. This mandate required all credit institutions to become members of all registered companies, ensuring a comprehensive and accurate credit database.
- 31.** (B) II, III, and IV
Credit Default Swaps in the Indian financial market are governed by specific regulatory frameworks that permit only plain vanilla structures. Under these contracts, default protection is typically limited to the principal amount, excluding interest components. Furthermore, the specific credit events that trigger a payout are standardized and defined by the International Swaps and Derivatives Association to ensure consistency.
- 32.** (A) I, II, and III
The reporting mechanism for Credit Information Companies involves several mandatory components to ensure data integrity. Banks must submit lists of both suit-filed and non-suit filed accounts for wilful defaulters with exposures of twenty-five lakh rupees and above. This information must be updated regularly, usually on a monthly basis, and includes the submission of historical data to maintain records.
- 33.** (B) RBI is apprehensive when banks hedge their credit risk by purchasing risk protection. The Reserve Bank of India generally encourages banks to manage their credit risk by purchasing risk protection through derivative instruments. However, the regulator expresses concern when banks act as sellers of credit protection, as this can lead to complex and unanticipated liabilities. The RBI favors a cautious and gradual growth of these instruments within the domestic financial market.
- 34.** (A) I, III, and IV
The internal environment of credit risk analysis includes factors that are inherent to the bank's lending portfolio and specific transactions.

- (D) CRISIL Limited – Categorized as a prominent domestic Credit Rating Agency (CRA).

May/June 2011

- 63.** In the context of credit derivatives, to what does the famous quote “These are weapons of mass financial destruction” by Warren Buffet refer?
- (A) Strict regulatory guidelines imposed by the RBI regarding the conduct of independent credit appraisals.
- (B) The use of traditional collateral securities to secure agricultural and other small-ticket loans.
- (C) The establishment of Credit Information Companies which might limit the availability of cheap credit.
- (D) Extreme complexity and unanticipated liabilities arising when banks sell credit protection.

Oct/Nov 2016

- 64.** Match the Credit Rating Agencies in List I with their corresponding descriptions in List II.

List I: (Agency)

P. Acuite Ratings and Research Limited

Q. FITCH

R. Infomeries Valuation and Rating Pvt. Ltd.

S. Brickwork Ratings India Pvt. Ltd.

List II: (Description)

1. Earlier known as SMERA
 2. An International ECRA
 3. A domestic CRA evaluating valuation and rating
 4. A domestic CRA known as Brickwork
- (A) P-1, Q-2, R-3, S-4
- (B) P-2, Q-3, R-4, S-1
- (C) P-3, Q-4, R-1, S-2
- (D) P-4, Q-1, R-2, S-3

May/June 2020

- 65.** Match the RBI guidelines directives in List I with their primary objectives in List II.

List I: (Directive)

P. Sensitivity tests and scenario analysis

Q. Ascertaining source and quality of equity capital

R. DIN/PAN verification

S. Board Oversight through CRILC

List II: (Objective)

1. Ensuring directors are correctly identified against defaulter lists
 2. Arresting deteriorating asset quality and early recognition of problems
 3. Addressing the impact of project delays and cost overruns
 4. Preventing multiple leveraging that camouflages Debt/Equity ratio
- (A) P-3, Q-4, R-1, S-2
- (B) P-1, Q-2, R-3, S-4
- (C) P-4, Q-1, R-2, S-3
- (D) P-2, Q-3, R-4, S-1

Oct/Nov 2020

- 66.** A corporate client is assigned a high Borrower Rating but a low Facility Rating due to the unsecured nature of the proposed term loan. In this scenario, what does the low Facility Rating specifically indicate to the lending bank?
- (A) A significantly high Probability of Default (PD) associated with the corporate client.
- (B) A mandatory requirement to review the exposure norms for the specific industry segment.
- (C) A high anticipated Loss Given Default if the risk event materializes.
- (D) A low anticipated level of spread risk within the broader transaction environment.

May/June 2018

- 67.** Identify the incorrect pair connecting a regulatory guideline to its specific requirement.
- (A) Wilful Defaulters list submission – To be done strictly on a ten-year basis.
- (B) CIC membership directive 2015 – All Credit Institutions must become members of all CICs.
- (C) Wilful Defaulters end-use monitoring – Separate mandate awarded to borrowers’ auditors.
- (D) CRILC reporting exemptions – Crop loans are exempted from reporting.

Oct/Nov 2006

- 68.** What fundamentally defines a Credit Default Swap (CDS)?
- (A) A financial mechanism used to pool diverse loans and sell them as asset-backed securities to retail investors.
- (B) An interest rate agreement between two banks to swap floating interest rates for

caused by natural calamities, and errors in business operations. Unlike credit or market risk, it focuses on the internal efficiency and resilience of the institution's organizational infrastructure.

- 43.** (A) To arrest fresh NPA accretion by alerting institutions against defaulting borrowers.

The establishment of a robust credit information system is primarily intended to arrest the accretion of fresh Non-Performing Assets within the banking industry. By providing a centralized repository of borrower histories, the system alerts financial institutions against potential defaulters. This collective information sharing enables lenders to make more informed decisions and avoid extending credit to high-risk borrowers.

- 44.** (C) The customer fails to pay the monthly interest instalment on a working capital term loan.

Credit risk from non-fund-based facilities occurs when a customer fails to reimburse the bank after a contingent liability, such as a guarantee or Letter of Credit, is invoked or devolved. However, the failure to pay monthly interest on a working capital term loan represents a default on a fund-based facility. Interest payments on term loans fall under direct lending risks.

- 45.** (A) I, II, and III

The regulatory framework for credit information requires every credit institution to be a member of at least one company, as per the 2005 Act. However, a 2015 directive expanded this by mandating membership in all registered companies. While companies originally collected data only from members, modern requirements ensure comprehensive data sharing, with updates typically occurring at monthly intervals rather than annually.

- 46.** (C) Both I and II are correct

Market risks and external credit factors differ primarily in their point of impact on the financial system. Market risks directly influence the bank through fluctuations in rates and prices. In contrast, external factors like government policies affect the borrower's business first. Despite these different mechanisms, both types

of risk ultimately lead to a potential impairment of the bank's credit portfolio.

- 47.** (D) Rs. 10,000 and Rs. 5,000

To standardize the costs associated with credit information sharing, the Reserve Bank of India has capped the fees charged by Credit Information Companies. The maximum one-time membership fee is restricted to ten thousand rupees, while the recurring annual fee is capped at five thousand rupees. These limits ensure that participation in the credit information system remains affordable for all institutions.

- 48.** (D) They are caused by the bank's own deficiencies, such as ignoring the purpose of a loan.

External factors affecting credit risk are those originating outside the bank's control, such as international protectionist policies or changes in domestic government regulations. They impact the borrower's ability to fulfill financial commitments. Conversely, deficiencies in the bank's own processes, such as ignoring the purpose of a loan, are classified as internal factors rather than external environmental risks.

- 49.** (A) Only I is correct

Banks and financial institutions are required to submit detailed lists of wilful defaulters to Credit Information Companies. This reporting must include both suit-filed and non-suit filed accounts where the exposure is twenty-five lakh rupees or above. This systematic submission ensures that information regarding dishonest borrowers is available across the financial system to prevent further credit loss and systemic instability.

- 50.** (C) Default Risk – Internal Environment

Default risk is fundamentally classified as an internal factor within credit risk analysis because it relates specifically to the transaction and the borrower's performance. Other internal factors include concentration risk, spread risk, and downgrade risk. These contrast with external environment factors, such as macroeconomic shifts or political instability, which originate from the broader economic landscape rather than specific bank policies.

(R). Select the correct answer from the options provided.

Assertion (A): Lending institutions shall formulate a policy with the approval of their Board of Directors outlining criteria to publish the photographs of wilful defaulters.

Reason (R): The policy ensures that the decision to publish photographs is neither discriminatory nor inconsistent.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 (C) Assertion (A) is true, but Reason (R) is false.
 (D) Assertion (A) is false, but Reason (R) is true.

May/June 2010

12. Match the timelines associated with the implementation of a Resolution Plan (RP) for MSMEs in List I with their respective durations in List II and select the correct option.

List I: (Activity)

- P. Completion of implementation if RP is Rectification
 Q. Completion of implementation if RP is Restructuring
 R. Initiation of measures if RP is Recovery
 S. Timeframe for borrower to respond after receiving notice from the Committee

List II: (Duration)

1. Within 15 working days
 2. Within 30 days from the date of decision
 3. Within 90 days from the date of decision
 4. Not later than 30 days from the date of decision
- (A) P-3, Q-2, R-4, S-1
 (B) P-2, Q-3, R-4, S-1
 (C) P-4, Q-1, R-2, S-3
 (D) P-2, Q-4, R-3, S-1

Oct/Nov 2024

13. Which statement regarding the publishing of photographs of wilful defaulters is incorrect?
 (A) A lending institution can consider publication of photographs of only those borrowers who have been declared as

wilful defaulters.

- (B) Lending institutions are permitted to publish photographs of any defaulting borrower at the discretion of the branch manager.
 (C) The decision to publish photographs must be based on criteria clearly set out in a Board-approved policy.
 (D) The National Human Rights Commission observed that 'name and shame' rules in educational loans amount to a serious violation of human rights.

May/June 2017

14. Lenders are finalizing an Inter-Creditor Agreement (ICA) for the resolution of a stressed corporate account. The total outstanding credit facility is Rs. 1000 crores, distributed among 10 different lenders. To make a decision agreed upon by the lenders binding on all participants, what is the minimum required approval threshold?
 (A) Lenders representing Rs. 500 crores by value and 5 lenders by number
 (B) Lenders representing Rs. 600 crores by value and 6 lenders by number
 (C) Lenders representing Rs. 750 crores by value and 6 lenders by number
 (D) Lenders representing Rs. 1000 crores by value and 10 lenders by number

Oct/Nov 2005

15. What is the cut off limit for classifying a borrower as non-cooperative?
 (A) Aggregate fund-based and non-fund based facilities of Rs. 1 crore from the concerned bank/FI
 (B) Aggregate fund-based and non-fund based facilities of Rs. 10 crores from the concerned bank/FI
 (C) Aggregate fund-based and non-fund based facilities of Rs. 25 crores from the concerned bank/FI
 (D) Aggregate fund-based and non-fund based facilities of Rs. 5 crores from the concerned bank/FI

May/June 2020

16. Consider the following statements concerning the Framework for Resolution of Stressed Assets and the Inter-Creditor Agreement (ICA):

- 59.** (A) Charging identical interest rates to all sector borrowers regardless of their individual ratings.

Credit ratings play a vital role in determining the final pricing of a loan through risk-based interest rates. Borrowers with higher risk ratings are typically charged higher interest rates to compensate for the increased probability of default. Applying identical interest rates to all borrowers regardless of their individual ratings is an incorrect practice that ignores the fundamental relationship between risk and return.

- 60.** (C) Risk levels depend on unique project features and the specific expertise of the promoters.

Even if two industrial projects appear identical in scope, they may carry different credit risk levels due to the unique characteristics of their management teams and specific project features. Promoters' expertise, financial track record, and operational experience significantly influence the probability of project success. Therefore, credit appraisals must look beyond the industry type to assess the specific capabilities involved.

- 61.** (B) The personal healthcare history of the borrowing company's shareholders.

Standard bank credit rating models focus on three major risk areas: management capability and available securities, financial performance through ratio analysis, and business or industry-specific risks. While these factors are critical for assessing creditworthiness, the personal healthcare history of a borrowing company's shareholders is not a relevant metric and is excluded from the broad categories used in professional risk scoring.

- 62.** (C) Acuite Ratings and Research Limited – Classified as an International CRA.

Various credit rating agencies operate within the financial system, with some classified as domestic and others as international. While agencies like CRISIL and CARE are prominent domestic players in India, Acuite Ratings and Research Limited is also a domestic agency rather than an international one. International agencies like Fitch provide global assessments,

whereas domestic agencies focus primarily on the local credit market.

- 63.** (D) Extreme complexity and unanticipated liabilities arising when banks sell credit protection.

The characterization of credit derivatives as weapons of mass financial destruction refers to the extreme complexity and the potential for massive, unanticipated liabilities. This risk is particularly high when financial institutions sell credit protection to other lenders. If systemic defaults occur, the resulting payout obligations can rapidly multiply, potentially destabilizing the entire financial system and exceeding the capital reserves of protection sellers.

- 64.** (A) P-1, Q-2, R-3, S-4

Credit rating agencies in the Indian market have distinct origins and classifications. Acuite Ratings and Research Limited was previously known as SMERA, while Fitch is recognized as an international agency. Other domestic agencies like Infomerics Valuation and Rating and Brickwork Ratings provide specialized credit assessments for various financial instruments. These agencies collectively help in the standardized quantification of risk.

- 65.** (A) P-3, Q-4, R-1, S-2

Regulatory guidelines are designed to address specific risks in the lending process. Sensitivity tests help manage project delays and cost overruns, while investigating equity sources prevents multiple leveraging. Verification of identifiers like the Director Identification Number ensures correct borrower identification. Finally, board oversight through repositories like the Central Repository of Information on Large Credits aims to arrest deteriorating asset quality efficiently.

- 66.** (C) A high anticipated Loss Given Default if the risk event materializes.

A facility rating focuses on the specific structure of a loan and the recovery prospects in the event of a default. If a borrower has a high overall rating but a low facility rating, it indicates that the specific loan is unsecured or poorly collateralized. This suggests a high anticipated loss given default, meaning the bank expects to recover very little.

- 51. (A)** Fund-based loans of Rs. 6 crores to manufacturing units.
The Central Repository of Information on Large Credits mandates the reporting of most large exposures, including fund-based loans to manufacturing units that exceed the five crore rupee threshold. While certain specific exposures, such as interbank lending to institutions like NABARD and SIDBI or agricultural crop loans, are granted exemptions, standard corporate loans must be reported to ensure comprehensive systemic oversight.
- 52. (D)** Concentration Risk
Concentration risk occurs when a bank has excessive exposure to a single borrower, group, or industry sector, such as commercial real estate. When that specific sector faces an economic downturn, the lack of diversification leads to significant portfolio-wide defaults. Effective risk management requires spreading exposures across various industries to mitigate the impact of localized economic shocks on the institution's capital.
- 53. (D)** Report the current account balance in the Return, despite the absence of credit exposure. Under the current regulatory framework, banks must report outstanding current account balances reaching the one crore rupee threshold to the central repository. This reporting obligation exists independently of whether the client has availed any fund-based or non-fund-based credit facilities from the bank. Even in the absence of traditional credit exposure, these large balances must be disclosed for systemic monitoring.
- 54. (C)** Formulating policies for stress resolution like rectification and restructuring.
Micro-level credit risk mitigation focuses on individual loan transactions and includes rigorous appraisal standards, the use of escrow mechanisms, and obtaining various guarantees or collateral. In contrast, formulating broad policies for stress resolution, such as restructuring or write-offs, is typically categorized as a macro-level tool used by management to manage the bank's overall portfolio health and systemic losses.
- 55. (B)** Non-payment of principal and interest by a borrower under the agreed repayment terms. In the context of fund-based credit facilities, credit risk is specifically defined as the risk of loss resulting from a borrower's inability or unwillingness to pay the principal and interest according to the agreed terms. This fundamental risk represents the most common form of credit loss in banking, where the borrower fails to meet their contractual repayment obligations to the lender.
- 56. (A)** P-1, Q-2, R-3, S-4
Macro-level risk tools include the formulation of broad stress resolution policies and the periodic review of internal structures like discretionary lending powers. Micro-level strategies are more targeted toward specific exposures, such as utilizing credit default swaps for risk dispersion in large accounts or obtaining corporate guarantees to secure individual loan proposals. These classifications help banks organize their risk management frameworks effectively.
- 57. (A)** To ensure exposures are spread across sectors and losses remain within tolerable limits.
Fixing internal limits for aggregate commitments to specific sectors is a strategic macro-level tool used to ensure that a bank's lending is well-diversified. By spreading exposures across various industries, the bank ensures that potential losses from a downturn in any single sector remain within tolerable limits. This approach prevents over-concentration and protects the institution's overall financial stability.
- 58. (B)** To measure and quantify the credit risk levels inherent in a specific loan proposal. The primary function of a credit rating during the loan appraisal process is to provide a standardized measurement and quantification of the risk levels inherent in a proposal. By assigning a score based on various financial and qualitative parameters, lenders can objectively assess the probability of default. This quantification is essential for making informed credit decisions and ensuring portfolio quality.

such as bankruptcy or failure to pay, are defined by the International Swaps and Derivatives Association. While the principal of the reference entity is protected, standard plain vanilla contracts typically do not cover interest.

76. (A) I, II, and IV

The Reserve Bank of India has issued comprehensive guidelines to enhance credit risk management across the banking sector. These include the requirement for lenders to conduct independent appraisals and perform sensitivity tests on infrastructure projects regarding potential delays. Additionally, banks must include the Director Identification Number in their reporting to ensure accurate identification and prevent errors in credit information systems.

77. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

The Central Repository of Information on Large Credits provides specific exemptions to simplify reporting for certain sectors and transactions. Agricultural crop loans are exempt from reporting regardless of their size, and interbank exposures to institutions like NABARD and SIDBI are similarly excluded. While both statements regarding these exemptions are factually accurate, the rule for interbank lending does not explain the exemption of crop loans.

78. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Banks are required to use independent sources, such as official identification numbers, to verify the identities of corporate directors. This regulatory mandate is necessary because there have been numerous instances where individuals were wrongfully denied credit simply because their names were similar to those on wilful defaulters lists. Using unique identifiers like the Director Identification Number provides the necessary clarity and accuracy.

79. (D) Periodically review the rating for potential downgrade due to evolving economic scenarios. Credit ratings must be dynamic to remain effective tools for risk management. When

significant external events occur, such as unexpected changes in government subsidy policies that impact a project's profitability, the bank must respond by reviewing the existing credit rating. This periodic reassessment allows the lender to potentially downgrade the rating to reflect the increased risk in the evolving economic scenario.

80. (C) I and III

To combat the diversion and siphoning of funds by borrowers, banks are encouraged to engage auditors for the specific certification of fund utilization. This practice includes the possibility of the bank utilizing its own auditors for this purpose. While these professional certifications provide an essential layer of verification, they are intended to supplement rather than substitute the bank's own diligence.

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- 67.** (A) Wilful Defaulters list submission – To be done strictly on a ten-year basis.

Regulatory requirements for monitoring credit risk include the frequent submission of data regarding wilful defaulters to ensure accurate and timely information. The assertion that this list should be submitted strictly on a ten-year basis is incorrect, as effective risk management requires much more regular updates. Most other directives, such as the 2015 membership mandate, emphasize continuous and accurate oversight.

- 68.** (D) A bilateral contract where a risk seller pays a premium for credit default protection.

A Credit Default Swap is a bilateral financial contract that allows a risk seller to transfer the credit risk of a reference entity to a protection seller. In exchange for this protection, the risk seller pays a periodic premium. If a specified credit event occurs, the protection seller compensates the buyer, effectively providing a form of insurance against potential credit default.

- 69.** (A) I and II

The Board of Directors at a bank is responsible for high-level oversight of asset quality and must implement policies to arrest any deterioration in the loan portfolio. This includes ensuring the timely submission of accurate credit information to regulatory repositories. However, classifying borrowers as non-cooperative is a serious action based on specific criteria and is not an automatic response to delays.

- 70.** (C) The lending bank must hand over the duly endorsed debt instrument to the Protection Seller.

Under a standard Credit Default Swap agreement, a specific process is followed when a credit event occurs. Upon receiving the protection amount from the seller, the lending bank is typically required to hand over the duly endorsed debt instrument to the protection seller. This physical settlement process transfers the remaining claims against the reference entity to the party that provided the protection.

- 71.** (B) I, II, and IV

The January 2015 directive from the Reserve Bank of India introduced several mandates for Credit Information Companies and institutions. It required all credit institutions to become members of all registered companies and capped the one-time membership fee at ten thousand rupees. Additionally, institutions were required to submit historical credit data. The directive also restricted annual fees to ensure data remains accessible.

- 72.** (A) The SPV uses the money to buy high quality securities.

In the structure of Credit Linked Notes, a Special Purpose Vehicle acts as an intermediary that raises funds by issuing notes to investors. The SPV then utilizes these funds to purchase high-quality securities, which serve as collateral. These securities generate the income needed to pay returns to investors while providing a pool of capital available if a credit event occurs.

- 73.** (A) I, II, III, and IV

The Central Repository of Information on Large Credits serves multiple regulatory functions, including the collection and dissemination of data on large exposures. It requires the reporting of SMA classifications and outstanding current account balances of one crore rupees and above. While specific interbank exposures are exempted from these requirements, the mandatory reporting of crop loans is not required by this repository.

- 74.** (B) They are used to pay the protection amount to the risk seller.

If the underlying credit reference entity defaults in a Credit Linked Note arrangement, the Special Purpose Vehicle must fulfill its obligation to the risk seller. The high-quality government bonds held by the SPV are sold, and the proceeds are used to pay the protection amount to the risk seller. Consequently, the investors in the notes may lose their principal investment.

- 75.** (A) I, II, III, and V

Credit Default Swaps are bilateral contracts where a protection buyer pays a periodic premium to a seller in exchange for coverage against specified credit events. These events,

- II. Wilful defaulters are eligible for restructuring without requiring any further review or approval.
- III. Cases of fraud are eligible for restructuring if the existing promoters are replaced by new promoters.
- IV. In case of failure of Rectification or Restructuring options, the Committee shall initiate the recovery option.
- V. The Committee cannot authorize the provision of additional financial resources to revive the unit.

Which of the above statement(s) is/are correct?

- (A) I, III, and IV only
- (B) II, III, and V only
- (C) I, II, and IV only
- (D) I, IV, and V only

Oct/Nov 2007

7. Which combination of the following events deems a default to be a 'wilful default'?
- I. The unit has defaulted in meeting its payment obligations even when it has the capacity to honour them.
 - II. The unit has diverted the borrowed funds for purposes other than those for which finance was availed.
 - III. The unit has siphoned off the funds and they are not available with the unit in the form of other assets.
 - IV. The unit has disposed of movable fixed assets given for securing a term loan without the knowledge of the lender.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, III, and IV

May/June 2025

8. Which statement accurately specifies the implementation timeframe for the terms of the Resolution Plan (RP) under the MSME framework?
- (A) If Recovery is considered as the RP, measures should be initiated at the earliest but not later than 30 days from the date of decision.
 - (B) If the RP involves Rectification,

implementation must be completed within 90 days from the date of decision.

- (C) If the RP involves Restructuring, implementation must be completed within 30 days from the date of decision.
- (D) During the operation period of the RP, the unit is strictly prohibited from availing unsecured credit for business operations.

Oct/Nov 2019

What distinguishes the 'siphoning of funds' from the 'diversion of funds'?

- (A) Siphoning involves using funds for purposes unrelated to the borrower's operations, while diversion involves business uses not conforming to sanction terms.
- (B) Siphoning strictly refers to routing funds through external bank accounts, whereas diversion refers to investing in subsidiary company equities.
- (C) Siphoning is applicable only to short-term working capital facilities, whereas diversion applies exclusively to long-term project term loans for expansion.
- (D) Siphoning requires the explicit prior consent of the lead lender, whereas diversion is typically executed without the lender's knowledge or approval.

May/June 2009

10. Consider the following conditions for an MSME account to qualify for the COVID-19 related restructuring window enhanced in June 2021:
- I. The borrowing entity had to be GST-registered on the date of implementation of the restructuring.
 - II. The aggregate exposure of all lending institutions to the borrower did not exceed Rs. 50 crores as on March 31, 2021.
 - III. The borrower's account was classified as a 'standard asset' as on March 31, 2021.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

Oct/Nov 2011

11. Direction: Each of the following questions consists of two statements, one labeled as Assertion (A) and the other labeled as Reason

- Tribunal for immediate asset attachment
- (B) Transferring the balance to a wholly-owned asset reconstruction company for recovery
 - (C) Writing off the principal amount to cleanse the bank's balance sheet of toxic debt
 - (D) Persuading the borrower to remit the unpaid amount and remain prompt in obligations

May/June 2006

- 22.** Consider the following statements regarding the delayed implementation of a viable Resolution Plan (RP):
- I. If a viable RP is not implemented within 180 days from the end of the Review Period, an additional provision of 20% must be made.
 - II. If the RP is not implemented within 365 days from the commencement of the Review Period, a total additional provisioning of 35% is required.
 - III. The additional provisions shall be capped at 100% of the total outstanding amount. Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

Oct/Nov 2017

- 23.** A borrower holding an account in a multiple banking arrangement begins exhibiting pronounced symptoms of financial stress. A single participating bank decides it wants to exit the account. To compel the borrower to shift the account, the bank adopts a specific operational tactic. Which action aligns with the standard tactics used to make a borrower exit?
- (A) Extending a fresh line of credit to solve the borrower's immediate liquidity crisis
 - (B) Withdrawing all concessions, reducing limits, and declining all requests for excess drawing
 - (C) Converting invoked bank guarantees into zero-interest long term loans
 - (D) Offering an immediate settlement where the PV of the offer is lower than the security value

May/June 2008

- 24.** A bank is holding a 20% additional provision against a corporate borrower due to the delayed implementation of a Resolution Plan. Convinced that the plan will not succeed, the bank files an insolvency application against the borrower under the Insolvency and Bankruptcy Code (IBC). Upon the successful filing of this application, how should the bank adjust the additional provision?
- (A) Reverse half of the additional provision made, bringing the additional holding to 10%.
 - (B) Reverse the entire 20% provision immediately to reflect the change in legal strategy.
 - (C) Retain the full provision without alteration until the borrower is officially liquidated.
 - (D) Increase the provision to 35% as a mandatory penalty for initiating insolvency.

Oct/Nov 2013

- 25.** Identify the correct pair connecting the legal forum with its respective operational threshold or feature.
- (A) Debt Recovery Tribunals (DRTs) — Expediting recovery cases involving amounts of Rs. 20 lakh and above
 - (B) Civil Courts — Recovery cases involving amounts of Rs. 20 lakh and above
 - (C) Lok Adalats — Exclusively for corporate recovery cases over Rs. 100 crores
 - (D) SARFAESI Act — Requires mandatory intervention of tribunals for enforcement of security interest

May/June 2015

- 26.** Consider the following statements about the Resolution Framework for COVID-19-related stress based on the Kamath Committee:
- I. The framework was intended to mitigate the economic fallout and facilitate the revival of real sector activities.
 - II. It enabled lenders to implement a resolution plan without a change in ownership while classifying exposures as Standard.
 - III. Only borrower accounts classified as standard, but not in default for more than 30 days as on March 1, 2020, were eligible.
 - IV. Lenders mandatorily considered five key ratios (including Total Debt/EBITDA,

- I. All lenders must put in place Board-approved policies for the resolution of stressed assets.
- II. Lenders shall undertake a prima facie review of the borrower account within thirty days from default, termed the Review Period.
- III. The ICA may provide for the rights and duties of majority lenders and the protection of rights of dissenting lenders.
- IV. Resolution Plans shall provide for payment to dissenting lenders not less than the liquidation value due to them.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, III, and IV

Oct/Nov 2015

17. Consider the following statements concerning non-cooperative borrowers:
 - I. The cut-off limit for classifying such borrowers is an aggregate facility of Rs. 5 crores.
 - II. A solitary or isolated instance should form the basis for such classification.
 - III. The classification decision is entrusted to a Committee headed by an Executive Director.
 - IV. Information on non-cooperative borrowers must be reported to CRILC within 21 days from the close of the relevant quarter.
 - V. Boards of banks/FIs should review the status of non-cooperative borrowers on a half-yearly basis.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV
- (B) I, III, IV, and V
- (C) II, III, IV, and V
- (D) I, II, IV, and V

May/June 2013

18. A Resolution Plan (RP) involving restructuring and ownership change is deemed implemented only if certain documentation conditions are met. Which is NOT a mandatory condition?
 - (A) Execution of all necessary agreements and completion of legal documentation

between the lenders and the borrower.

- (B) Reflection of the new capital structure and revised terms in the books of all participating lenders and the borrower.
- (C) Procurement of an Independent Credit Evaluation of the plan from at least three authorized Credit Rating Agencies.
- (D) Ensuring the borrower is not in default with any of the lenders involved in the resolution at the time of implementation.

Oct/Nov 2021

19. Consider the following statements regarding the oversight of non-cooperative borrowers:

- I. Boards of banks/FIs should review the status of non-cooperative borrowers on a half-yearly basis for deciding whether their names can be declassified.
- II. Removal of names from the list of non-cooperative borrowers should be separately reported under CRILC with adequate reasoning/rationale.

Which of the above statement(s) is/are correct?

- (A) Only I is correct
- (B) Only II is correct
- (C) Both I and II are correct
- (D) Neither I nor II is correct

May/June 2024

20. A Resolution Plan formulated for a corporate borrower does not involve restructuring or change in ownership. Under what specific condition will this RP legally be deemed as 'implemented'?

- (A) Only if the borrower pays off 50% of the total outstanding debt within the initial Review Period.
- (B) Only if the borrower secures an independent rating upgrade to AAA within 90 days.
- (C) Only if the lenders unanimously agree to convert the entire debt into equity.
- (D) Only if the borrower is not in default with any of the lenders by the 180th day post-Review Period.

Oct/Nov 2008

21. When dealing with an account showing early signs of stress, what is universally considered the most desirable course of action under the 'Rectification' process?
 - (A) Initiating legal action in the Debt Recovery

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CHAPTER 24

Restructuring Rehabilitation and Recovery

Oct/Nov 2014

1. A commercial bank plans to sell a distressed financial asset to an Asset Reconstruction Company. The total outstanding exposure of the asset being proposed for sale is valued at Rs. 85 crores. According to regulatory guidelines on the valuation of assets proposed to be sold, what are the specific requirements the bank must fulfill regarding this transaction?
 - (A) The bank may rely solely on its internal valuation metrics without commissioning any external reports.
 - (B) The bank must obtain two external valuation reports, and the cost of the valuation exercise shall be borne by the bank.
 - (C) The bank must obtain exactly one external valuation report, the cost of which is fully borne by the defaulting borrower.
 - (D) The bank is exempted from securing any valuation report if the sale is executed through a verified e-auction platform.

May/June 2005

2. The specific framework designed to address stress in MSME accounts and facilitate their rehabilitation is applicable to stressed MSME accounts having an exposure up to what amount?
 - (A) Rs. 5 crores
 - (B) Rs. 10 crores
 - (C) Rs. 25 crores
 - (D) Rs. 50 crores

Oct/Nov 2022

3. What does the Provisioning Coverage Ratio (PCR) indicate for a bank?
 - (A) The ratio of provisions to gross NPAs, representing funds reserved to cover loan losses
 - (B) The ratio of total outstanding loans to total deposits held to assess liquidity and credit growth
 - (C) The ratio of performing assets to non-

performing assets over a specific financial reporting quarter

- (D) The percentage of stressed assets successfully restructured within the prevailing financial fiscal year

May/June 2018

4. A branch identifies a stressed MSME account with an aggregate loan limit of Rs. 15 lakh. According to the MSME restructuring framework based on Early Warning Signals/ SMAs, what is the specified timeline within which the branch must forward this account to the designated committee for a suitable Resolution Plan (RP)?
 - (A) Within 5 working days
 - (B) Within 15 working days
 - (C) Within 21 working days
 - (D) Within 30 working days

Oct/Nov 2016

5. A bank sanctions a term loan for the construction of a new industrial project. After partial disbursement, the implementation of the project is entirely abandoned. The first repayment installment has not yet fallen due as per the original loan agreement. How should the bank categorize this loan?
 - (A) As a performing asset, because the repayment date has not yet passed
 - (B) As a doubtful asset, because the project has completely halted operations
 - (C) As a standard asset with an enhanced provisioning requirement of 15%
 - (D) As a non-performing asset, because the project implementation has been abandoned

May/June 2014

6. Consider the following statements regarding the options and eligibility under the MSME Resolution Plan (RP):
 - I. The options under RP may include Rectification, Restructuring, and Recovery.

Current Ratio, DSCR, ADSCR, and TOL/ATNW) while finalizing plans.

- V. The target date for meeting the specified thresholds for operational parameters was set as October 1, 2022.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and V
- (B) II, III, IV, and V
- (C) I, III, IV, and V
- (D) I, II, III, IV, and V

Oct/Nov 2012

27. Consider the following statements regarding the recovery process through Civil Courts:

- I. The plaint to be filed in the court is to be signed by the authorised official of the bank.
- II. A preliminary decree orders the defendants to pay the money to the bank within 6 months.
- III. The limitation period of a final decree is 12 years, within which the recovery needs to be complete.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

May/June 2011

28. What is the regulatory implication if the deferment of the DCCO for a project falls outside the permitted extension limits?

- (A) It is treated as an automated write-off requiring immediate P&L debit.
- (B) It results in an automatic upgrading of the asset class to standard due to the extended timeline.
- (C) The loan is treated as a restructuring, resulting in a downgrade to Sub Standard.
- (D) It requires the borrower to immediately deposit 50% of the total outstanding exposure.

Oct/Nov 2020

29. A bank intends to take possession of a commercial property provided as collateral against a loan. The borrower has defaulted in repayment. Under the SARFAESI Act, what

mandatory step must the bank execute before taking possession of the collateral?

- (A) File a summary suit in the local Civil Court
- (B) Serve a due notice of demand of 60 days to the borrower
- (C) Request the District Magistrate to issue a non-bailable warrant
- (D) Deregister the property from the CERSAI database

May/June 2022

30. Match the type of project and the reason for deferment of DCCO in List I with the permitted maximum shift in repayment schedule (without being treated as restructuring) in List II and select the correct option.

List I: (Project Type and Reason)

- P. Infrastructure Projects (For first deferment)
- Q. Non Infra Projects (For first deferment)
- R. Infrastructure Projects (Deferment due to arbitration or court case)
- S. Non Infra Projects (Deferment due to arbitration or court case)

List II: (Maximum Shift)

- 1. T+1 year
- 2. T+2 years
- 3. Total: T+4 years
- 4. T+2 years only
- (A) P-1, Q-2, R-4, S-3
- (B) P-2, Q-1, R-3, S-4
- (C) P-3, Q-4, R-1, S-2
- (D) P-2, Q-3, R-4, S-1

Oct/Nov 2023

31. Consider the following statements concerning the SARFAESI Act:

- I. It provides for the enforcement of security interest for realisation of dues without the intervention of courts or tribunals.
- II. It enables banks/FIs to sell financial assets to securitisation companies or reconstruction companies.
- III. It allows secured creditors to take possession over a collateral upon a default in repayment after serving due notice of demand of 60 days.
- IV. It extended to co-operative banks by a notification dated January 28, 2003.

Which of the above statement(s) is/are

NODIA

Oct/Nov 2017

67. How is the Date of Commencement of Commercial Operation (DCCO) defined in the context of project finance?

- (A) The documented date on which the borrowing entity is scheduled to begin commercial operations
- (B) The date on which the bank approves the final disbursement of the term loan
- (C) The date on which the principal repayment of the term loan is completely finalized
- (D) The deadline by which the borrower must secure an independent credit evaluation

May/June 2005

68. Direction: Each of the following questions consists of two statements, one labeled as Assertion (A) and the other labeled as Reason (R). Select the correct answer from the options provided below.

Assertion (A): The SARFAESI Act was amended in 2004 to enable the borrower to make an application before the debt recovery tribunal against the measures taken by the secured creditor without depositing any portion of the money due.

Reason (R): The 2004 amendment provided that the debt recovery tribunal shall dispose of the application as expeditiously as possible within a period of 60 days from the date of application.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

69. Under the COVID-19 resolution framework guided by the Kamath Committee recommendations, banks mandatorily assessed specific key ratios while finalizing resolution plans. Which of the following ratios was NOT one of the five key parameters specified for this purpose?

- (A) Total Debt/EBITDA
- (B) Current Ratio

- (C) Debt Service Coverage Ratio (DSCR)
- (D) Return on Assets (ROA)

May/June 2011

70. Identify the incorrect pair linking the specific law or institution to its establishment or enactment year.

- (A) SARFAESI Act — 2002
- (B) Insolvency and Bankruptcy Code — 2016
- (C) Legal Services Authority Act — 1987
- (D) SARFAESI Act Amendment enabling borrower application without deposit — 2008

Oct/Nov 2021

71. Consider the following conditions regarding the deferment of DCCO without it being treated as restructuring:

- I. The revised DCCO must fall within the stipulated period from the original DCCO.
- II. All other terms and conditions of the loan must remain unchanged.
- III. These project loans will continue to be treated as standard assets in all respects.
- IV. Deferment is exclusively permitted for infrastructure projects and strictly prohibited for non-infrastructure projects like commercial real estate.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, III, and IV

May/June 2013

72. A bank has a substantial exposure to a large manufacturing company that has recently defaulted. The bank seeks a resolution process that ensures the continuation of the company as a going concern while protecting the creditor from debtor harassment. Which legal framework serves as the most effective tool for achieving this specific outcome?

- (A) The Insolvency and Bankruptcy Code, 2016 (IBC)
- (B) The Legal Services Authority Act, 1987
- (C) The Debt Recovery Tribunals under the Civil Procedure Code
- (D) The SARFAESI Act, 2002

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- classified under the 'standard' category
- (B) Restructuring an account currently classified under the 'doubtful' category
- (C) Initiating the process of restructuring subject to the customer agreeing to the terms
- (D) Restructuring a borrowal account with retrospective effect

May/June 2012

38. Match the conditions for the sale of financial assets in List I with their respective parameters in List II and select the correct option.

List I: (Condition/Activity)

- P. Initial holding period for a bank selling its own NPA
- Q. Minimum holding period for a purchasing bank before reselling a non-performing financial asset
- R. Floor time that must be provided for due diligence by prospective buyers
- S. Minimum consent (by value) required from consortium lenders to sell a standard asset

List II: (Parameter)

1. Two weeks
 2. 12 months
 3. 75%
 4. Without any initial holding period
- (A) P-4, Q-2, R-1, S-3
- (B) P-2, Q-4, R-3, S-1
- (C) P-1, Q-2, R-4, S-3
- (D) P-4, Q-1, R-3, S-2

May/June 2019

39. The essential prerequisite before a bank can take up an account for restructuring is:
- (A) The borrower must provide an upfront payment equal to 25% of the outstanding dues.
- (B) The financial viability is established and there is a reasonable certainty of repayment.
- (C) The account must have been classified as a Non-Performing Asset for a minimum of 12 months.
- (D) The bank must secure explicit permission from the local District Magistrate.

Oct/Nov 2006

40. Which statement regarding the procedural dynamics of selling financial assets is incorrect?

- (A) The invitation for bids must be strictly kept confidential among a small group of pre-selected buyers.
- (B) An open auction process is highly recommended to result in better price discovery for the asset being sold.
- (C) It is considered desirable to use e-auction platforms to enable the participation of as many prospective buyers as possible.
- (D) Banks are obligated to provide adequate time for due diligence by prospective buyers, ensuring a floor of two weeks.

May/June 2021

41. In the context of credit facilities, what does the supervisory concern of 'ever-greening' primarily refer to?

- (A) Restructuring an account without assessing viability to conceal bad loans
- (B) Consistently upgrading credit ratings based on historically prompt repayments
- (C) Funding environmentally sustainable projects through long-term syndicated loans
- (D) Converting term loans into working capital to align with business cycles

Oct/Nov 2010

42. What does credit default signify in relation to lending, trading, or financial transactions?

- (A) The temporary suspension of a credit facility due to sovereign restrictions
- (B) The inability or unwillingness of a counterparty to meet financial commitments
- (C) The strategic liquidation of an asset to recover principal amounts
- (D) The restructuring of a loan portfolio to avoid impending financial losses

Oct/Nov 2011

43. Consider the following candidates for the committee formed for the resolution of stressed MSME accounts:

- I. Regional or zonal head of the convener bank
- II. Officer-in-charge of MSME of the convener bank at the regional or zonal office level
- III. An independent expert in MSME
- IV. A representative from the concerned State Government

Which of the above accurately identifies the

NODIA

May/June 2007

- 56.** Consider the following steps in the process for classifying a borrower as non-cooperative. Which is the correct chronological order?
1. The Committee headed by an Executive Director concludes that the borrower is non-cooperative.
 2. The Committee issues a Show Cause Notice to the concerned borrower calling for a submission.
 3. After considering the submission, an order is issued recording the borrower to be non-cooperative.
 4. The order is reviewed and confirmed by a Review Committee headed by the Chairman/CEO and MD.
- (A) 1, 2, 3, 4
(B) 2, 1, 3, 4
(C) 1, 3, 2, 4
(D) 2, 3, 1, 4

Oct/Nov 2009

- 57.** Match the elements of the Stressed Assets Resolution Framework in List I with their corresponding details in List II and select the correct option.
- List I: (Element)
- P. Aggregate exposure ₹2000 crores and above
- Q. Aggregate exposure ₹1500 crores and above, but less than ₹2000 crores
- R. Duration of the Review Period following default
- S. Deadline for implementing the RP after the Review Period
- List II: (Detail)
1. Thirty days
 2. 180 days
 3. Reference date: June 7, 2019
 4. Reference date: January 1, 2020
- (A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-3, S-1

May/June 2020

- 58.** A company with aggregate facilities of Rs. 8 crores is formally classified as a non-cooperative borrower and reported to CRILC. Subsequently, the company approaches the bank for a new loan to finance a critical expansion. If the bank sanctions this new loan,

what regulatory requirement must the bank fulfill?

- (A) Obtain prior written approval from the Reserve Bank of India before disbursement.
(B) Make higher provisioning as applicable to substandard assets in respect of the new loan.
(C) Apply a mandatory interest rate penalty of 5% over the marginal cost of funds.
(D) Classify the entire new loan immediately as a doubtful asset upon disbursement.

Oct/Nov 2016

- 59.** Consider the following statements regarding the requirements for Independent Credit Evaluation (ICE) under the resolution framework:
- I. RPs involving restructuring where aggregate exposure is ₹100 crores and above require ICE of the residual debt.
 - II. Accounts with aggregate exposure of ₹500 crores and above require two such ICEs.
 - III. RPs must receive a credit opinion of RP4 or better for the residual debt to be considered for implementation.
 - IV. The Credit Rating Agencies (CRAs) shall be directly engaged by the lenders.
 - V. The payment of the fee for such CRA assignments shall be made exclusively by the borrower.
- Which of the above statement(s) is/are correct?
- (A) I, II, III, and IV
(B) I, III, IV, and V
(C) II, III, IV, and V
(D) I, II, IV, and V

May/June 2008

- 60.** Match the options available for stressed assets in List I with their corresponding descriptions in List II and select the correct option.
- List I: (Option)
- P. Regularisation
Q. Exit from the Account
R. Restructuring
S. Compromise
- List II: (Description)
1. Accepting an offer where the present value (PV) is higher than the PV of the realizable value of available security.
 2. Granting concessions for economic or

explanation of Assertion (A).

- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2016

50. A manufacturing enterprise borrows funds specifically to upgrade its factory machinery. However, the management utilizes the entire amount to purchase a luxury residential property for the personal use of the promoters, severely affecting the financial health of the enterprise. How is this action classified?
- (A) Legitimate asset creation
 - (B) Diversion of funds
 - (C) Siphoning of funds
 - (D) Technical write-off

Oct/Nov 2018

51. In early 2018, regulatory provisions allowed MSME borrowers to remain classified as standard even if overdue reached 180 days. What critical condition was imposed to avail this?
- (A) The borrower was required to be registered under GST by the specified reference date.
 - (B) The borrower had to inject an additional 25% equity capital into the business operations.
 - (C) The borrower was legally bound to replace existing management with independent directors.
 - (D) The borrower had to execute a formal agreement surrendering all fixed assets as collateral.

May/June 2022

52. Which combination of statements regarding the publishing of photographs of defaulters is correct?
- I. Lending institutions can indiscriminately publish photographs of all defaulting borrowers to ensure rapid recovery.
 - II. Non-whole time directors exempted from being considered wilful defaulters are generally not subject to having their photographs published.
 - III. The practice of publishing photographs of

education loan defaulters was directed to be stopped by the Union Government due to potential human rights violations.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

Oct/Nov 2005

53. Under standard regulatory instructions, excluding any special one-time dispensations, what is the immediate asset classification outcome when a Standard Asset (SA) undergoes restructuring?
- (A) It remains classified as a Standard Asset without any provision adjustments.
 - (B) It is directly downgraded to a Doubtful Asset to reflect enhanced risk.
 - (C) It is immediately written off as a Loss Asset.
 - (D) It becomes a Sub Standard Asset (SSA), the initial category under NPA.

May/June 2019

54. How is a Non-Cooperative Borrower defined?
- (A) A borrower who experiences a genuine business failure resulting in an inability to repay debts on time
 - (B) A borrower who defaults but actively cooperates with the bank in restructuring the loan under regulatory guidelines
 - (C) A borrower who deliberately stone walls legitimate efforts of the lenders to recover their dues while having the ability to pay
 - (D) A borrower who applies for fresh credit facilities while existing facilities are currently under a moratorium

Oct/Nov 2015

55. Identify the correct pair matching the aggregate exposure of the borrower to lenders with the applicable reference date for the commencement of the Review Period.
- (A) ₹2000 crores and above — June 7, 2019
 - (B) ₹1500 crores and above, but less than ₹2000 crores — June 7, 2020
 - (C) Less than ₹1500 crores — January 1, 2019
 - (D) ₹100 crores and above — March 1, 2020

required members of the committee?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, III, and IV

May/June 2025

44. Consider the following statements regarding provisioning and asset classification:

- I. The amount of provision required to be made on the asset portfolio of a bank depends on its classification into standard, sub-standard, doubtful, and loss categories.
- II. Banks should build up provisioning buffers for absorbing losses in a downturn.

Which of the above statement(s) is/are correct?

- (A) Only I is correct
- (B) Only II is correct
- (C) Both I and II are correct
- (D) Neither I nor II is correct

Oct/Nov 2023

45. Consider the following steps in the application process under the MSME resolution framework. Which is the correct chronological order?

- 1. The borrower files an application which is admitted by the Committee.
- 2. The Committee notifies the concerned borrower about the application.
- 3. The borrower responds or makes a representation before the Committee.
- 4. The Committee takes a decision on the option to be adopted under the Resolution Plan (RP).

- (A) 1, 2, 3, 4
- (B) 2, 1, 3, 4
- (C) 1, 3, 2, 4
- (D) 2, 3, 1, 4

May/June 2014

46. Which of the following accurately represents the further classification of Non-performing assets (NPAs)?

- (A) Stressed, sub-standard, and doubtful assets
- (B) Performing, doubtful, and loss assets
- (C) Sub-standard, doubtful, and loss assets
- (D) Standard, sub-standard, and doubtful assets

Oct/Nov 2012

47. Which statement regarding the procedural requirements of the MSME resolution framework is incorrect?

- (A) Within 15 working days of receipt of notice, the borrower is required to respond or make a representation.
- (B) The borrower is required to disclose all liabilities, including those owed to the State or Central Government and unsecured creditors.
- (C) The Committee may send notice to statutory creditors informing them about the application and permitting them to make a representation regarding their claims.
- (D) If the borrower does not respond within the stipulated period, the Committee is prohibited from proceeding ex-parte under any circumstances.

May/June 2024

48. Which of the following is NOT construed as 'diversion of funds'?

- (A) Utilisation of short-term working capital funds for long-term purposes
- (B) Routing of funds through a non-consortium bank without prior permission of the lender
- (C) Investment in other companies by acquiring equities without approval of lenders
- (D) Deploying borrowed funds for the creation of assets for which the loan was sanctioned

Oct/Nov 2022

49. Direction: Each of the following questions consists of two statements, one labeled as Assertion (A) and the other labeled as Reason (R). Select the correct answer from the options provided below.

Assertion (A): During the spread of the Covid-19 pandemic, regulatory windows were permitted for the restructuring of MSME accounts up to Rs. 50 crores without mandating a downgrade in the asset classification.

Reason (R): The regulatory relief was introduced understanding the severe financial difficulties faced by MSME units due to the pandemic and the transition to a formalised business environment.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct

legal reasons relating to the borrower's financial difficulty that the bank would not otherwise consider.

3. Persuading and prevailing upon the borrower to remit the unpaid amount and remain prompt in the future.
4. Withdrawing all concessions, enforcing all covenants in letter and spirit, and reducing limits.

- (A) P-3, Q-4, R-2, S-1
- (B) P-4, Q-3, R-1, S-2
- (C) P-2, Q-1, R-4, S-3
- (D) P-3, Q-2, R-1, S-4

Oct/Nov 2013

- 61.** Consider the following statements regarding the implementation of Resolution Plans and select the correct option:

- I. If lenders obtain Independent Credit Evaluation (ICE) from more than the required number of CRAs, all such ICE opinions shall be RP4 or better for the RP to be considered for implementation.
- II. An RP which involves lenders exiting the exposure by assigning it to a third party is deemed implemented only if the exposure to the borrower is fully extinguished.

- (A) Only I is correct
- (B) Only II is correct
- (C) Both I and II are correct
- (D) Neither I nor II is correct

May/June 2010

- 62.** Which of the following is NOT a typical concession granted to a borrower under a restructuring arrangement?

- (A) Elongation of the repayment period and sanction of fresh moratorium
- (B) Capitalisation of unpaid interest, instalments, and future cash loss
- (C) Immediate withdrawal of all credit priorities and enforcement of all restrictive covenants
- (D) Conversion of outstanding working capital facilities into medium or long term loans

Oct/Nov 2014

- 63.** Identify the incorrect pair linking the action under a Resolution Plan with the condition for reversing the additional provisions.

- (A) RP involves only payment of overdues — Reversed only if the borrower is not in

default for a period of 6 months from the date of clearing overdues.

- (B) RP involves restructuring/change in ownership outside IBC — Reversed upon the implementation of the RP.
- (C) Resolution is pursued under IBC — Half of the additional provisions reversed on filing of insolvency application, remaining reversed upon admission.
- (D) Assignment of debt/recovery proceedings are initiated — Reversed immediately upon filing the necessary paperwork in the court.

May/June 2017

- 64.** A suit for the recovery of a Bank's dues can be filed before the Civil Court in cases where the recoverable amount from the borrower is less than which of the following thresholds?

- (A) Rs. 5.00 lacs
- (B) Rs. 10.00 lacs
- (C) Rs. 20.00 lacs
- (D) Rs. 50.00 lacs

Oct/Nov 2006

- 65.** Which statement regarding the additional provisions required for the delayed implementation of a Resolution Plan is incorrect?

- (A) The additional provisions shall be made over and above the higher of the provisions already held or required as per asset classification.
- (B) Additional provisions are waived if recovery proceedings are initiated, regardless of completion.
- (C) The additional provisions shall be made by all the lenders with exposure to such a borrower.
- (D) The total provisions held against the account are capped at 100% of the total outstanding.

May/June 2012

- 66.** What is the jurisdictional limit for referring a dispute to a Lok Adalat convened under the civil judiciary?

- (A) Dues up to Rs. 10 lakh
- (B) Dues up to Rs. 20 lakh
- (C) Dues up to Rs. 50 lakh
- (D) Unlimited amount

explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2025

79. Consider the following statements regarding the regulatory guidelines on the valuation and sale policies of financial assets:

- I. The invitation for bids should preferably be publicly solicited to attract a wide variety of buyers.
- II. An open auction process is expected to result in better price discovery.
- III. Banks must provide adequate time for due diligence, which may vary as per asset size, with a floor of two weeks.
- IV. Banks should lay down a Board approved policy clearly specifying when internal or external valuation is needed.
- V. In the case of exposures beyond Rs. 50 crores, banks shall obtain two external valuation reports.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV
- (B) II, III, IV, and V
- (C) I, III, IV, and V
- (D) I, II, III, IV, and V

NODIA

May/June 2023

80. Consider the following statements regarding the consent required for restructuring an advance:

- I. Normally, restructuring cannot take place unless alteration or changes in the original loan agreement are made with the formal consent or application of the debtor.
- II. The process of restructuring can be initiated by the bank in deserving cases subject to the customer agreeing to the terms and conditions.

Which of the above statement(s) is/are correct?

- (A) Only I is correct
- (B) Only II is correct
- (C) Both I and II are correct
- (D) Neither I nor II is correct

Oct/Nov 2010

- 73.** What is the standard provisioning requirement applied to a non-infrastructure project undergoing its first deferment in DCCO (T+1 year) that qualifies to be treated without restructuring?
- (A) 0.40% as per the "Standard" asset category
 - (B) 5.00% from the date of the deferment till the revised DCCO
 - (C) 15% additional provisioning due to the delay in commercial operations
 - (D) 20% provisioning mirroring the delayed implementation of a viable RP

May/June 2009

- 74.** A bank concludes that legal recovery will not yield results and decides to write off an outstanding amount. What legal standing does the bank hold regarding this borrower post write-off?
- (A) The bank completely forfeits all legal rights to recover any future amounts from the borrower.
 - (B) The borrower's liability remains, and the bank retains the legal right to any future recovery.
 - (C) The bank must transfer the remaining debt to an Asset Reconstruction Company at zero cost.
 - (D) The borrower's liability is extinguished, and their credit rating is immediately upgraded to standard.

Oct/Nov 2007

- 75.** Consider the following conditions for a Standard Asset to be eligible to be sold to a Securitisation Company (SC) or Reconstruction Company (RC):
- I. The asset is under consortium or multiple banking arrangements.
 - II. At least 75% by value of the asset is classified as a non-performing asset in the books of other banks/FIs.
 - III. At least 75% (by value) of the banks/FIs under the consortium agree to the sale of the asset to the SC/RC.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

May/June 2018

- 76.** Which statement accurately reflects the condition imposed on secured creditors regarding the Central Registry (CERSAI)?
- (A) Secured creditors can bypass CERSAI registration if the loan amount is below Rs. 20 lakhs.
 - (B) Registration with CERSAI is exclusively meant for unsecured loans to track corporate default.
 - (C) Creditors cannot take possession of collateral unless the security is registered with CERSAI.
 - (D) Stamp duty is doubled for transactions involving collateral not registered with CERSAI database.

Oct/Nov 2020

- 77.** Under which condition will banks NOT be permitted to sell a financial asset reported as SMA-2 to Securitisation Companies (SCs) or Reconstruction Companies (RCs)?
- (A) If the asset is part of a multiple banking arrangement
 - (B) If restructuring is the chosen Resolution Plan but additional finance isn't arranged
 - (C) If the prospective buyer requests an open e-auction platform for price discovery
 - (D) If at least 75% of the lending consortium agrees to the sale

May/June 2006

- 78.** Direction: Each of the following questions consists of two statements, one labeled as Assertion (A) and the other labeled as Reason (R). Select the correct answer from the options provided below.
- Assertion (A): Any restructuring done without looking into cash flows and assessing the viability of the project financed would be treated as an attempt at ever-greening a weak credit facility.
- Reason (R): Accounts not considered viable should immediately be granted additional finance to prevent their transition into the sub-standard category.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct

correct?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, III, and IV

May/June 2016

- 32.** Direction: Each of the following questions consists of two statements, one labeled as Assertion (A) and the other labeled as Reason (R). Select the correct answer from the options provided below.

Assertion (A): For infrastructure projects, a deferment of the DCCO due to reasons beyond the control of the promoter can be extended up to a total of T+4 years without being treated as a restructuring.

Reason (R): This permitted deferment encompasses the initial T+2 years allowance plus an additional T+2 years granted specifically for delays due to arbitration or court cases.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2009

- 33.** When dealing with a recovery through a compromise, what is the cardinal principle for accepting such an offer?
- (A) The compromise offer must fully cover the principal outstanding, waving only the accrued interest.
 - (B) The PV of the offer must be higher than the PV of the realizable value of available security.
 - (C) The compromise must be unconditionally approved by the relevant Debt Recovery Tribunal in writing.
 - (D) The borrower must surrender all existing security documents to the bank prior to the negotiation.

May/June 2023

- 34.** A bank restructures a project loan due to a change in the promoter, pushing the DCCO by a total of 6 years. Because this falls under the permitted parameters, what specific provisioning is required?
- (A) 0.40% until the revised DCCO date is reached as per standard asset rules.
 - (B) 5.00% from the restructuring date until the revised DCCO date is achieved.
 - (C) 10.00% as an upfront penalty for changing the promoter during the project phase.
 - (D) 15.00% standard asset provisioning due to the extended 6-year project delay.

Oct/Nov 2018

- 35.** How is a 'technical write off' distinguished from an actual write off?
- (A) It involves setting off provisions against bad debts on the balance sheet to improve financial ratios.
 - (B) It involves selling the NPA to an external securitisation company rather than writing it off internally.
 - (C) It involves writing off the principal amount while continuing to accrue interest in a separate account.
 - (D) It requires the mandatory approval of the Central Registry of Securitisation Asset Reconstruction of India.

May/June 2007

- 36.** Which statement is correct regarding the sale of Non-Performing Assets (NPAs) between financial institutions?
- (A) A purchasing bank is legally permitted to resell an acquired NPA within one month of purchase.
 - (B) NPAs can only be sold if they have been classified as doubtful for at least three consecutive years.
 - (C) NBFCs are prohibited from purchasing NPAs from scheduled commercial banks.
 - (D) Banks are permitted to sell their NPAs to other banks without any initial holding period.

Oct/Nov 2025

- 37.** Which of the following actions is strictly prohibited under regulatory guidelines on the restructuring of advances by banks?
- (A) Restructuring an account currently

ANSWERS

1. (B) The bank must obtain two external valuation reports, and the cost of the valuation exercise shall be borne by the bank.
Regulatory guidelines specify that for assets with an exposure of one hundred crores or more being sold to reconstruction companies, banks are required to obtain two external valuation reports. This ensures transparency and accurate pricing in the disposal of distressed financial assets. Furthermore, the bank must bear the entire cost associated with this mandatory valuation exercise.
2. (C) Rs. 25 crores
The specific framework designed for the rehabilitation of stressed micro, small, and medium enterprises applies to accounts where the aggregate exposure of all lending institutions does not exceed twenty-five crores. This threshold ensures that smaller business units receive focused attention through a structured mechanism for timely identification and implementation of effective resolution plans for their financial recovery.
3. (A) The ratio of provisions to gross NPAs, representing funds reserved to cover loan losses
The Provisioning Coverage Ratio measures the proportion of total provisions held by a bank against its gross non-performing assets. It indicates the extent to which the bank has set aside funds to cover potential losses from bad loans. A higher ratio signifies better financial resilience, as it suggests the bank is well-prepared to absorb credit-related risks.
4. (A) Within 5 working days
Under the MSME restructuring framework, once a branch identifies a stressed account as a Special Mention Account based on early warning signals, it must act swiftly. For accounts with an aggregate loan limit up to ten lakh rupees or higher, the branch is mandated to forward the case to the designated committee within five working days.
5. (D) As a non-performing asset, because the project implementation has been abandoned
When the implementation of a project is entirely abandoned before its completion, the asset must be classified as a non-performing asset immediately. This classification applies regardless of whether the first repayment installment is due according to the original agreement. Since the project will no longer generate expected cash flows, it poses a direct risk to the recovery.
6. (A) I, III, and IV only
The resolution plan for micro, small, and medium enterprises provides options including rectification, restructuring, or recovery. While wilful defaulters are generally excluded, cases involving fraud may be considered for restructuring if the existing promoters are replaced by new ones. If rectification or restructuring fails, the committee must initiate the recovery option to protect the interests of the lenders.
7. (D) I, II, III, and IV
A wilful default is identified when a unit fails to meet payment obligations despite having the financial capacity to do so. It also includes instances where borrowed funds are diverted for unauthorized purposes or siphoned off so they are no longer available as assets. Additionally, disposing of secured fixed assets without the lender's knowledge constitutes a wilful default.
8. (A) If Recovery is considered as the RP, measures should be initiated at the earliest but not later than 30 days from the date of decision.
Regulatory guidelines for the micro, small, and medium enterprise framework mandate specific timelines for implementing resolution plans. If the committee decides on recovery as the chosen option, the necessary legal or administrative measures must be initiated promptly. These actions should start at the earliest opportunity and cannot be delayed beyond thirty days from the date the decision is finalized.

42. (B) The inability or unwillingness of a counterparty to meet financial commitments
In the context of financial transactions, a credit default occurs when a counterparty fails to fulfill its contractual financial obligations. This failure may arise from an inability to pay due to financial distress or a deliberate unwillingness to honour commitments. Recognizing a default is critical for banks to initiate timely resolution processes, adjust asset classifications, and maintain the integrity of their balance sheets.

43. (D) I, II, and III
The committee established for the resolution of stressed micro, small, and medium enterprise accounts consists of several key stakeholders. These include the regional or zonal head and the MSME officer-in-charge from the convener bank. Additionally, the committee must include an independent expert in the MSME sector and a representative from the concerned State Government to ensure a comprehensive review process.

44. (C) Both I and II are correct
Provisioning requirements are directly linked to the classification of a bank's asset portfolio into standard, sub-standard, doubtful, and loss categories. These rules ensure that banks set aside adequate capital to cover potential credit losses. Furthermore, banks are encouraged to build up provisioning buffers during periods of economic growth to absorb higher losses that typically occur during financial downturns or market instability.

45. (A) 1, 2, 3, 4
The application process under the MSME resolution framework follows a specific chronological sequence. First, the borrower files an application that the committee admits. Next, the committee formally notifies the borrower about the pending application. The borrower then has the opportunity to respond or make a representation. Finally, after considering all inputs, the committee decides on the most suitable resolution plan.

46. (C) Sub-standard, doubtful, and loss assets
Once an asset is classified as non-performing, it undergoes further categorization based on the duration for which it has remained

an NPA and the realizability of the security. These categories include sub-standard assets, doubtful assets, and loss assets. Each category has specific provisioning requirements, with loss assets requiring the highest percentage of coverage due to the low probability of future recovery.

47. (D) If the borrower does not respond within the stipulated period, the Committee is prohibited from proceeding ex-parte under any circumstances.

Under the MSME resolution framework, the committee has the authority to proceed ex-parte if a borrower fails to respond to a notice within fifteen working days. It is incorrect to claim that the committee is prohibited from doing so. This provision ensures that the resolution process is not indefinitely stalled by a non-responsive borrower, allowing for timely decisions on recovery or restructuring.

48. (D) Deploying borrowed funds for the creation of assets for which the loan was sanctioned

Diversification of funds involves using borrowed money for purposes other than those specified in the loan agreement, such as utilizing short-term funds for long-term investments or routing money through unauthorized bank accounts. Conversely, deploying borrowed funds specifically for the creation of assets for which the loan was originally sanctioned is the legitimate and intended use of credit, representing proper management.

49. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

During the pandemic, regulatory authorities allowed for the restructuring of MSME accounts with exposures up to fifty crores without mandatory downgrades in asset classification. This relief recognized the extreme financial hardships units faced due to global lockdowns and the shift toward formal business practices. By maintaining standard classification, banks could provide necessary support to these units while avoiding excessive provisioning.

50. (C) Siphoning of funds

When management utilizes borrowed funds for purposes completely unrelated to the borrower's

17. (B) I, III, IV, and V

Classifying a borrower as non-cooperative involves a structured process where an Executive Director-led committee reviews the case. This status is reserved for borrowers with exposures of five crores or more and requires reporting to the central repository within twenty-one days of the quarter's end. Boards must review these cases half-yearly, and classification should not be based on isolated instances.

18. (C) Procurement of an Independent Credit Evaluation of the plan from at least three authorized Credit Rating Agencies.

For a resolution plan involving restructuring or ownership change to be deemed implemented, several conditions must be met. These include executing legal documents, reflecting the new capital structure in financial books, and ensuring the borrower is not in default. While independent credit evaluations are often necessary for large exposures, procuring evaluations from three separate credit rating agencies is not mandatory.

19. (C) Both I and II are correct

Boards of banks and financial institutions are responsible for overseeing the status of non-cooperative borrowers on a half-yearly basis. This review determines whether a borrower's name should be removed from the list based on improved cooperation or debt settlement. Any such declassification must be reported to the central repository with a detailed rationale to ensure transparency across the banking system.

20. (D) Only if the borrower is not in default with any of the lenders by the 180th day post-Review Period.

In cases where a resolution plan for a corporate borrower does not involve restructuring or a change in ownership, the implementation status is determined by the borrower's performance. The plan is legally deemed implemented only if the borrower is no longer in default with any of the participating lenders by the one hundred and eightieth day following the review period's end.

21. (D) Persuading the borrower to remit the unpaid amount and remain prompt in obligations

Rectification is the most preferred initial course of action for managing accounts that show early signs of financial stress. This process focuses on engaging with the borrower to resolve temporary liquidity issues without formal restructuring. The primary goal is to persuade the borrower to pay the overdue amounts and maintain a prompt repayment schedule, thereby ensuring the asset remains performing.

22. (D) I, II, and III

Regulatory guidelines mandate additional provisioning if a viable resolution plan is not implemented within specific timelines. Lenders must set aside an extra twenty percent if the plan is delayed beyond one hundred and eighty days from the review period's end. This requirement increases to a total of thirty-five percent after one year. These provisions are capped at the total outstanding amount.

23. (B) Withdrawing all concessions, reducing limits, and declining all requests for excess drawing

When a bank intends to exit a stressed account under multiple banking arrangements, it may use specific operational tactics to encourage the borrower to move elsewhere. This includes withdrawing existing concessions, reducing credit limits, and strictly declining any requests for excess drawings or additional facilities. Such measures signal the lender's desire to terminate the relationship while protecting its financial interests.

24. (A) Reverse half of the additional provision made, bringing the additional holding to 10%.

When a bank initiates insolvency proceedings under the Insolvency and Bankruptcy Code against a borrower for whom additional provisions were held due to resolution delays, specific adjustments are allowed. Upon the successful filing of the insolvency application, the bank can reverse half of the additional provision. This reduces the extra holding from twenty percent to ten percent while the legal process continues.

asset is already classified as non-performing by other lenders in the arrangement. Furthermore, at least seventy-five percent of the participating lenders by value and sixty percent by number must agree to the sale to ensure a collective decision.

- 76.** (C) Creditors cannot take possession of collateral unless the security is registered with CERSAI.

Registration of security interest with the Central Registry of Securitisation Asset Reconstruction and Security Interest is a mandatory requirement for secured creditors. Under the SARFAESI Act, a bank cannot exercise its right to take possession of collateral upon a borrower's default unless the security is properly registered in the CERSAI database. This ensures a centralized and transparent record of all encumbrances.

- 77.** (B) If restructuring is the chosen Resolution Plan but additional finance isn't arranged

Banks are generally allowed to sell stressed assets classified as SMA-2 to reconstruction companies. However, this sale is prohibited if restructuring has already been chosen as the resolution plan but the necessary additional finance has not yet been arranged. This rule prevents lenders from offloading assets while a specific recovery plan is incomplete, ensuring that resolution efforts are properly finalized.

- 78.** (C) Assertion (A) is true, but Reason (R) is false.

Restructuring must always involve a thorough assessment of a project's cash flows and future viability. If a bank modifies loan terms without this analysis, it is considered an attempt at ever-greening, which misleadingly improves asset quality. It is incorrect to provide additional finance to unviable accounts; instead, such accounts should be identified and classified correctly to reflect their true risk.

- 79.** (D) I, II, III, IV, and V

Regulatory guidelines for the sale of financial assets emphasize the importance of transparency and structured processes. Banks should use public bid invitations and e-auctions to achieve better price discovery and provide at least two weeks for due diligence. A board-approved

policy must govern these transactions, and for exposures of one hundred crores or more, obtaining two external valuation reports is a mandatory requirement.

- 80.** (C) Both I and II are correct

Restructuring an advance fundamentally alters the original loan agreement, which generally requires the formal consent or application of the debtor. While the bank can proactively initiate the restructuring process in deserving cases where a borrower is facing genuine difficulties, the final implementation is subject to the customer agreeing to the revised terms and conditions. This ensures that both parties are committed.

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realizable value of the available security. This comparison ensures that the compromise is more advantageous than pursuing a lengthy and uncertain legal recovery.

- 34.** (B) 5.00% from the restructuring date until the revised DCCO date is achieved.

When a project loan is restructured due to a change in ownership or promoter, and the commencement date is extended within permitted limits, specific provisioning rules apply. If the delay is significant, such as a six-year push, the bank must maintain a provision of five percent. This requirement remains in effect from the restructuring date until the revised operation date is reached.

- 35.** (A) It involves setting off provisions against bad debts on the balance sheet to improve financial ratios.

A technical write-off is an accounting procedure where a bank removes non-performing loans from its balance sheet by setting them off against accumulated provisions. Unlike a full write-off, this process is primarily intended to improve financial ratios and reduce tax liability. The bank continues to maintain the borrower's liability in its records and pursues all available legal means for recovery.

- 36.** (D) Banks are permitted to sell their NPAs to other banks without any initial holding period. Banks are permitted to sell their non-performing assets to other banks without being subject to a mandatory initial holding period. This flexibility allows financial institutions to manage their loan portfolios and exit stressed exposures more efficiently. The purchasing bank can then attempt to recover the dues or manage the asset according to its internal policies and regulatory guidelines.

- 37.** (D) Restructuring a borrowal account with retrospective effect
Regulatory guidelines strictly prohibit banks from restructuring any borrowal account with retrospective effect. Restructuring must always be a forward-looking process based on the current financial status and future viability of the borrower. Applying revised terms to past periods is considered an irregular practice that

obscures the true quality of the asset and can be used to unfairly hide potential defaults.

- 38.** (A) P-4, Q-2, R-1, S-3

The sale of financial assets is governed by specific parameters to ensure market discipline. While banks can sell their own non-performing assets without an initial holding period, a purchasing bank must hold an acquired asset for at least twelve months before reselling it. Prospective buyers must be given a minimum of two weeks for due diligence, and consortium sales require seventy-five percent by value and sixty percent by number consent.

- 39.** (B) The financial viability is established and there is a reasonable certainty of repayment.

Before a bank can undertake the restructuring of a stressed loan, it must establish that the borrower's business is financially viable. There must be a reasonable certainty that the entity can generate sufficient cash flows to meet the revised repayment schedule. Restructuring without a clear path to recovery is discouraged as it often leads to further defaults and delayed asset classification.

- 40.** (A) The invitation for bids must be strictly kept confidential among a small group of pre-selected buyers.

Regulatory guidelines emphasize transparency and wide participation when selling financial assets. It is incorrect to keep bid invitations confidential among a small group. Instead, banks are encouraged to publicly solicit bids and use e-auction platforms to ensure better price discovery. Providing a minimum of two weeks for due diligence is also a mandatory requirement to allow prospective buyers to make informed decisions.

- 41.** (A) Restructuring an account without assessing viability to conceal bad loans

Ever-greening is a supervisory concern where a lender provides fresh credit or restructures an unviable loan to prevent it from being classified as a non-performing asset. This practice conceals the true level of stress in the loan portfolio and delays necessary recovery actions. It is considered a serious regulatory violation as it misrepresents the bank's financial health and capital adequacy.

capital against the risks associated with such borrowers.

59. (A) I, II, III, and IV

Resolution plans for large exposures require an independent credit evaluation of the residual debt. For exposures between one hundred and five hundred crores, one ICE is required, while larger exposures need two. The evaluation must result in a rating of RP4 or better. Lenders must engage the credit rating agencies directly and are responsible for paying the associated fees to ensure independence.

60. (A) P-3, Q-4, R-2, S-1

Managing stressed assets involves several distinct strategies. Regularisation focuses on persuading borrowers to pay overdue amounts. Exiting an account involves withdrawing concessions and reducing limits to encourage the borrower to leave. Restructuring grants financial concessions due to a borrower's difficulty. Finally, a compromise settlement is accepted when the present value of the offer exceeds the present value of the security's realizable value.

61. (C) Both I and II are correct

A resolution plan is considered implemented under specific conditions. If multiple independent credit evaluations are obtained, every single opinion must meet the RP4 rating threshold or better. In cases where the plan involves assigning the debt to a third party, it is only deemed implemented once the original lender's exposure to the borrower has been completely extinguished through the transaction.

62. (C) Immediate withdrawal of all credit priorities and enforcement of all restrictive covenants

Restructuring typically involves granting concessions to help a borrower overcome financial difficulties. These include extending the repayment period, providing a fresh moratorium, or capitalising unpaid interest. In contrast, the immediate withdrawal of credit priorities and the strict enforcement of restrictive covenants are tactics used when a bank intends to exit an account, rather than providing the support intended through restructuring.

63. (D) Assignment of debt/recovery proceedings are initiated — Reversed immediately upon filing the necessary paperwork in the court.

Additional provisions made for delays in resolution are reversed based on specific milestones. While filing an insolvency application allows for a partial reversal, simply initiating recovery proceedings or filing paperwork in court does not immediately justify reversing these provisions. The reversal for assignment or recovery typically requires the actual implementation of the resolution or the final completion of the debt assignment process.

64. (C) Rs. 20.00 lacs

Banks can file recovery suits in traditional civil courts when the outstanding amount from a borrower is less than twenty lakh rupees. For amounts at or above this threshold, the case must be referred to the specialized Debt Recovery Tribunals. This jurisdictional division ensures that smaller recovery cases are handled locally while larger financial disputes are resolved through an expedited tribunal process.

65. (B) Additional provisions are waived if recovery proceedings are initiated, regardless of completion.

Additional provisions are mandatory for all lenders when a resolution plan is delayed, and these are capped at the total outstanding amount. It is incorrect to state that these provisions are waived simply because recovery proceedings have been initiated. The requirement remains until a resolution plan is actually implemented or the legal recovery process results in a significant reduction of exposure.

66. (B) Dues up to Rs. 20 lakh

Lok Adalats serve as an alternative dispute resolution mechanism for settling pending court cases or disputes at the pre-litigation stage. For banking recovery matters, these forums generally have the jurisdiction to handle cases where the amount involved is up to twenty lakh rupees. This provides a cost-effective and speedy way for banks to resolve smaller non-performing assets through mutual settlement.

business operations, such as purchasing personal luxury property instead of factory machinery, the action is classified as siphoning of funds. This practice is a serious breach of the loan agreement as it deliberately depletes the resources of the enterprise, making it unable to meet its financial obligations and repay.

51. (A) The borrower was required to be registered under GST by the specified reference date. In 2018, a specific regulatory dispensation allowed MSME borrowers to maintain a standard asset classification even if their payments were overdue for up to one hundred and eighty days. To qualify for this temporary relief, the borrower was required to be registered under the Goods and Services Tax as of a specified reference date. This measure aimed to support small businesses.
52. (B) II and III only
Regulatory guidelines prohibit the indiscriminate publication of photographs for all defaulters, especially in sensitive cases like education loans where such actions could violate human rights. Furthermore, non-whole time directors who are not responsible for day-to-day management are generally exempted from having their photographs published as wilful defaulters. These rules ensure that banks focus their recovery measures on individuals with direct responsibility.
53. (D) It becomes a Sub Standard Asset (SSA), the initial category under NPA.
Under standard regulatory instructions, when a standard asset undergoes restructuring due to the borrower's financial difficulty, it is immediately downgraded. The asset typically moves to the sub-standard category, which is the first stage of being classified as a non-performing asset. This downgrade reflects the increased credit risk associated with the modified repayment terms and necessitates higher provisioning by the lending institution.
54. (C) A borrower who deliberately stone walls legitimate efforts of the lenders to recover their dues while having the ability to pay
A non-cooperative borrower is defined as one who possesses the financial ability to repay their debts but deliberately obstructs the

lender's recovery efforts. This includes refusing to provide financial information, denying access to collateral, or avoiding communication. Unlike a genuine business failure, non-cooperation involves a willful attempt to prevent the bank from realizing its legitimate dues through various obstructionist tactics.

55. (A) ₹2000 crores and above — June 7, 2019
The framework for resolving stressed assets established specific reference dates for the commencement of the review period based on the borrower's aggregate exposure. For large corporate borrowers with exposures of two thousand crores and above, the reference date was set as June 7, 2019. Lenders were required to identify defaults and initiate resolution plans within thirty days of this date.
56. (A) 1, 2, 3, 4
Classifying a borrower as non-cooperative follows a strict procedural sequence to ensure fairness. First, a committee headed by an Executive Director identifies the non-cooperative behaviour. Then, a show cause notice is issued to the borrower for their submission. After reviewing the response, a formal order is issued. Finally, a separate review committee, led by the Chairman or CEO, confirms the decision.
57. (B) P-3, Q-4, R-1, S-2
The resolution framework for stressed assets specifies clear reference dates and timelines based on exposure levels. Borrowers with exposures over two thousand crores had a reference date of June 7, 2019, while those above fifteen hundred crores started on January 1, 2020. Once a default occurs, lenders have thirty days for review and must implement a resolution plan within 180 days.
58. (B) Make higher provisioning as applicable to substandard assets in respect of the new loan.
If a bank chooses to sanction a new loan to a borrower already classified as non-cooperative, it must adhere to stricter provisioning requirements. Regulatory guidelines mandate that the new credit facility be subject to the higher provisioning rates typically applicable to sub-standard assets. This measure serves as a deterrent and ensures the bank holds adequate

- 25.** (A) Debt Recovery Tribunals (DRTs) — Expediting recovery cases involving amounts of Rs. 20 lakh and above

Debt Recovery Tribunals were established to provide a specialized and expedited forum for banks and financial institutions to recover their dues. These tribunals have jurisdiction over recovery cases where the total amount involved is twenty lakh rupees or more. This mechanism helps bypass the lengthy procedures of traditional civil courts, enabling faster resolution of high-value non-performing assets.

- 26.** (D) I, II, III, IV, and V

The Kamath Committee framework was established to address financial stress caused by the pandemic, allowing for resolution plans without immediate asset downgrades. It applied to standard accounts with minimal defaults as of March 2020. Lenders were required to assess five specific financial ratios and ensure that borrowers met the designated operational thresholds for these parameters by the target date in 2022.

- 27.** (D) I, II, and III

Recovery through civil courts involves filing a formal plaint signed by an authorized bank official. The court may issue a preliminary decree giving the defendant six months to settle the debt. If the payment is not made, a final decree is issued. The limitation period for executing this final decree is twelve years, providing a long window to complete recovery.

- 28.** (C) The loan is treated as a restructuring, resulting in a downgrade to Sub Standard.

If the deferment of the Date of Commencement of Commercial Operation for a project exceeds the limits permitted by regulatory guidelines, the loan undergoes a change in its classification. Such an extension is treated as a restructuring of the credit facility. Consequently, the asset is downgraded to the sub-standard category, necessitating higher provisioning and closer monitoring.

- 29.** (B) Serve a due notice of demand of 60 days to the borrower

Under the SARFAESI Act, a secured creditor must follow a specific legal process to take possession of collateral without court

intervention. The first mandatory step after a borrower defaults is to serve a formal demand notice. This notice provides the borrower with a sixty-day period to discharge their full liabilities. Only after this period expires can the bank proceed.

- 30.** (B) P-2, Q-1, R-3, S-4

Regulatory rules permit the deferment of project commencement dates without immediate restructuring classification. Infrastructure projects are allowed an initial two-year extension, which can reach four years if delays involve arbitration or court cases. In contrast, non-infrastructure projects are limited to a one-year initial deferment, with a maximum of two years permitted when legal or arbitration issues are the primary cause.

- 31.** (D) I, II, III, and IV

The SARFAESI Act empowers secured creditors to enforce their security interests and recover dues without judicial intervention. It facilitates the sale of financial assets to reconstruction companies and allows banks to take possession of collateral after a sixty-day notice. Additionally, the Act's provisions were extended to co-operative banks through official notifications, strengthening their ability to manage and resolve non-performing assets.

- 32.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Infrastructure projects are granted significant flexibility regarding delays in commercial operations. A project's commencement date can be deferred for up to four years from the original schedule without being classified as restructured. This total period includes a standard two-year allowance for general delays and an additional two years specifically allocated for circumstances involving lengthy arbitration or ongoing court cases.

- 33.** (B) The PV of the offer must be higher than the PV of the realizable value of available security. The cardinal principle for accepting a compromise offer in loan recovery is based on economic benefit. A bank should only agree to a settlement if the present value of the offer is higher than the present value of the

- 67.** (A) The documented date on which the borrowing entity is scheduled to begin commercial operations

In project finance, the Date of Commencement of Commercial Operation is the specific date identified in the loan documents when the project is scheduled to begin its commercial activities. This date is a critical milestone used by lenders to monitor project progress and determine when repayment installments should begin. Any deferment beyond this date often triggers regulatory requirements for asset classification.

- 68.** (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

The 2004 amendment to the SARFAESI Act significantly improved the legal standing of borrowers by allowing them to approach the Debt Recovery Tribunal without a mandatory prior deposit. Simultaneously, it mandated that the tribunal dispose of such applications within sixty days. While both provisions aim to ensure a fair and timely legal process, the speed of disposal is a separate procedural requirement.

- 69.** (D) Return on Assets (ROA)

Under the COVID-19 resolution framework, the Kamath Committee identified five critical financial ratios to ensure the viability of resolution plans. These included the Debt Service Coverage Ratio, Current Ratio, and Total Debt to EBITDA, among others. Return on Assets was not included as one of these mandatory parameters, as the focus was on solvency and liquidity rather than overall profitability.

- 70.** (D) SARFAESI Act Amendment enabling borrower application without deposit — 2008
The legal landscape for debt recovery is defined by several key acts and their subsequent amendments. While the SARFAESI Act was enacted in 2002 and the Insolvency and Bankruptcy Code in 2016, the specific amendment to the SARFAESI Act allowing borrowers to file applications without a mandatory deposit occurred in 2004. Identifying the correct years is essential for understanding the evolution of rights.

- 71.** (A) I, II, and III only

Deferring the commencement date of a project without treating it as a restructuring requires meeting certain criteria. The revised date must fall within specific regulatory limits, and all other original loan terms must remain unchanged. Such assets continue to be classified as standard. While non-infrastructure projects like commercial real estate are also eligible for deferment, they are subject to shorter permitted timelines.

- 72.** (A) The Insolvency and Bankruptcy Code, 2016 (IBC)

The Insolvency and Bankruptcy Code, 2016, is designed to provide a time-bound and creditor-led process for resolving insolvency. Its primary objective is to maximize the value of the debtor's assets and promote entrepreneurship by attempting to resolve the firm as a going concern. This framework prevents debtor harassment while ensuring a transparent and collective mechanism for the recovery of dues.

- 73.** (A) 0.40% as per the "Standard" asset category
When a non-infrastructure project experiences its first deferment in the Date of Commencement of Commercial Operation by up to one year, it qualifies for specific regulatory treatment. Provided the extension remains within this permitted limit, the loan is not classified as restructured. Consequently, the bank only needs to maintain the standard asset provisioning of zero point four zero percent for the account.

- 74.** (B) The borrower's liability remains, and the bank retains the legal right to any future recovery.

A loan write-off is primarily an internal accounting decision that allows a bank to remove an asset from its balance sheet. Crucially, this action does not extinguish the borrower's legal liability to repay the debt. The bank retains all its legal rights to pursue recovery through various channels. Any amount recovered after a write-off is credited back to the bank's profit.

- 75.** (D) I, II, and III

Standard assets can be sold to reconstruction companies under specific conditions, particularly when they are part of a consortium. This is permitted if at least seventy-five percent of the

9. (A) Siphoning involves using funds for purposes unrelated to the borrower's operations, while diversion involves business uses not conforming to sanction terms.
Siphoning of funds occurs when borrowed money is utilized for purposes entirely unrelated to the borrower's business operations, often resulting in the loss of those funds. In contrast, diversion involves using funds for business-related activities that do not conform to the specific terms of the sanction, such as using short-term working capital for long-term capital investments.
10. (D) I, II, and III
To qualify for the enhanced COVID-19 restructuring window introduced in June 2021, an MSME borrower had to meet several conditions. The aggregate exposure across all lenders could not exceed fifty crores as of March 31, 2021. Additionally, the account must have been classified as a standard asset on that date and the entity required GST registration during implementation.
11. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Lending institutions are required to formulate a formal policy, approved by their Board of Directors, regarding the publication of photographs of wilful defaulters. This structured approach ensures that the decision-making process is consistent and prevents any discriminatory practices. By following clear criteria, banks can balance the need for recovery with legal and ethical standards regarding the borrower's privacy.
12. (B) P-2, Q-3, R-4, S-1
Specific timelines govern the resolution of micro, small, and medium enterprise accounts. Rectification plans must be implemented within thirty days, while restructuring allows for a ninety-day window from the decision date. Recovery measures must be initiated within thirty days. Furthermore, borrowers are granted fifteen working days to respond or make representations after receiving a formal notice from the committee.
13. (B) Lending institutions are permitted to publish photographs of any defaulting borrower at the discretion of the branch manager.
Banks are not permitted to publish the photographs of every defaulting borrower at the branch manager's discretion. Regulatory guidelines restrict this practice specifically to those individuals who have been formally declared as wilful defaulters. This decision must always be based on criteria clearly defined within a Board-approved policy to ensure fairness and compliance with human rights and legal standards.
14. (C) Lenders representing Rs. 750 crores by value and 6 lenders by number
Under the Inter-Creditor Agreement for the resolution of stressed assets, a resolution plan becomes binding on all participating lenders once it receives the required majority support. This threshold is met when lenders representing at least seventy-five percent of the total outstanding credit by value and sixty percent of the lenders by number agree to the proposed decision and plan.
15. (D) Aggregate fund-based and non-fund based facilities of Rs. 5 crores from the concerned bank/FI
A borrower is classified as non-cooperative if they deliberately obstruct the lender's recovery efforts despite having the capacity to repay. This classification is applicable to borrowers with an aggregate fund-based and non-fund-based facility of five crores and above from a specific bank or financial institution. Reporting such borrowers helps maintain credit discipline and alerts other institutions about potential risks.
16. (D) I, II, III, and IV
The framework for resolving stressed assets requires all lenders to implement Board-approved policies and conduct a thirty-day review period following a default. The Inter-Creditor Agreement defines the rights of majority and dissenting lenders, ensuring that those who disagree with a resolution plan receive at least the liquidation value. These collective measures provide a structured approach to managing credit stress.

CHAPTER 25

Resolution of Stressed Assets under Insolvency and Bankruptcy Code 2016

May/June 2016

1. A Corporate Debtor attempts to initiate PIRP while simultaneously facing a potential CIRP application by a financial creditor. How does the Code handle parallel proceedings?
 - (A) PIRP and CIRP can run in parallel, and whichever concludes first is adopted.
 - (B) PIRP cannot run in parallel to CIRP.
 - (C) CIRP automatically suspends the MSME status of the corporate debtor.
 - (D) The NCLAT appoints a joint liquidator to merge both proceedings.

Oct/Nov 2018

2. A liquidation process is initiated under the Code in which of the following circumstances?
 - I. The Adjudicating Authority does not receive a resolution plan before the expiry of the maximum period permitted for CIRP.
 - II. The Committee of Creditors resolves to liquidate the corporate debtor during the CIRP.
 - III. The corporate debtor contravenes the terms of the approved resolution plan and an affected person applies for liquidation.
 - IV. The Adjudicating Authority rejects the resolution plan for non-compliance with the Code.Which of the above statement(s) is/are correct?
 - (A) I, II, and III only
 - (B) I, III, and IV only
 - (C) II, III, and IV only
 - (D) I, II, III, and IV

May/June 2023

3. Bankruptcy is best defined as:
 - (A) The legal recognition of insolvency as beyond resolution.
 - (B) The stage where a corporate debtor seeks capital restructuring.

- (C) The temporary suspension of debt recovery proceedings by creditors.
 - (D) The pooling of financial information by an Information Utility.

Oct/Nov 2021

4. An operational creditor may prove the existence of debt due during the liquidation process on the basis of:
 - I. The records available with an information utility.
 - II. A contract for the supply of goods and services with the corporate debtor.
 - III. An invoice demanding payment for the goods and services supplied.Which of the above statement(s) is/are correct?
 - (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

May/June 2007

5. The Insolvency and Bankruptcy Code, 2016 is termed a 'Code' rather than an 'Act' primarily because:
 - (A) It applies exclusively to companies, limited liability partnerships, and statutory bodies.
 - (B) It was drafted to provide a specific legal framework for cross-border insolvency cases.
 - (C) It provides non-binding procedural guidelines for all creditors and corporate debtors.
 - (D) It consolidates and amends existing laws on reorganization and insolvency resolution.

Oct/Nov 2014

6. Match the stakeholder class with their maximum representation norm in the

Oct/Nov 2016

59. Consider the following components included in the priority of distribution of liquidation proceeds:

- I. Insolvency resolution process costs and liquidation costs.
- II. Workmen's dues for the period of 24 months preceding the liquidation commencement date.
- III. Financial debts owed to unsecured creditors.
- IV. Dues to the Governments for the period of two years preceding liquidation commencement.
- V. Equity shareholders or partners.

Which of the above statement(s) is/are correct?

- (A) I, II, III, IV, and V
- (B) I, II, IV, and V only
- (C) II, III, IV, and V only
- (D) I, III, IV, and V only

May/June 2014

60. Consider the following statements regarding the Committee of Creditors (CoC):

- I. Critical matters are passed by the CoC with a 66% majority.
- II. Withdrawal of Application for Resolution under section 12A requires a 90% majority of the Committee by value.

Which of the statements is/are correct?

- (A) Only I
- (B) Only II
- (C) Both I and II
- (D) Neither I nor II

Oct/Nov 2007

61. The following question consists of two statements, an Assertion (A) and a Reason (R). Select the correct answer using the options given below.

Assertion (A): A secured creditor who relinquishes her security interest during liquidation ranks pari-passu with workmen's dues for the period of 24 months preceding the liquidation commencement date.

Reason (R): Secured creditors are legally prohibited from standing outside the liquidation process to enforce their security interests on their own.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct

explanation of Assertion (A).

- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2025

62. The NCLT declares a moratorium from the date of commencement of insolvency till its completion. Consider the following actions:

- I. Institution of suits against the corporate debtor.
 - II. Transfer of assets by the corporate debtor.
 - III. Recovery or enforcement under SARFAESI.
- Which of the above actions are prohibited during the moratorium?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

Oct/Nov 2019

63. Consider the following statements regarding the realisation of assets during liquidation:

- I. The liquidator is empowered to sell the corporate debtor as a going concern normally by the auction route.
- II. For perishable assets, the liquidator can realise the value by private sale, provided it is not to a related party without NCLT approval.

Which of the above statement(s) is/are correct?

- (A) Only I
- (B) Only II
- (C) Both I and II
- (D) Neither I nor II

May/June 2009

64. Which of the following pairs linking the Corporate Insolvency Resolution Process (CIRP) activity to its latest timeline from commencement (T) is correctly matched?

- (A) Submission of claims : T+90
- (B) Appointment of valuer : T+40
- (C) Verification of claims received under regulation 12(1) : T+14
- (D) 1st meeting of the CoC : T+30

insolvent corporate debtor.

- (B) Estimates of assets and liabilities based on the books of the debtor.
- (C) Expected amount of realization from the sale of an asset standalone.
- (D) The proposed plan of action for carrying out the entire liquidation.

May/June 2005

- 13.** What is the core function of Information Utilities (IUs) under the Insolvency and Bankruptcy Code?
- (A) Entities that regulate the professional functioning of Insolvency Professional Agencies.
 - (B) Authenticated pooling centres that act as reservoirs of financial information.
 - (C) Supervisory bodies that certify the final liquidation value of the corporate debtor.
 - (D) Statutory bodies serving as the appellate tribunal for individuals and partnerships.

Oct/Nov 2022

- 14.** Which of the following pairs concerning the timeline of reports submitted by the liquidator is correctly matched?
- (A) Preliminary Report : Within seventy-five days from liquidation commencement
 - (B) First Progress Report : Within forty-five days after the end of the quarter
 - (C) Asset Memorandum : Within seventy-five days from liquidation commencement
 - (D) Final Report : Within seven days of the first CoC meeting

May/June 2018

- 15.** Match the legal element with its corresponding entity:

List I: (Legal Element)

- P. Regulator
- Q. Adjudicating Authority for Corporate
- R. Appellate Authority for individuals
- S. Supreme Authority

List II: (Entity)

- 1. IBBI
- 2. NCLT
- 3. DRAT
- 4. Supreme Court
- (A) P-1, Q-2, R-3, S-4
- (B) P-2, Q-1, R-4, S-3
- (C) P-3, Q-4, R-1, S-2
- (D) P-4, Q-3, R-2, S-1

Oct/Nov 2016

- 16.** Match the type of historical transaction with its correct description:

List I: (Transaction Type)

- P. Preferential transactions
- Q. Undervalued transactions
- R. Fraudulent transactions
- S. Extortionate transactions

List II: (Description)

- 1. A transaction deliberately entered into to defraud the person benefited from a creditor
- 2. A transaction placing a person in a beneficial position
- 3. A transaction involving receipt of debt not in compliance with law
- 4. A transaction not taking place in the ordinary course of business
- (A) P-1, Q-4, R-2, S-3
- (B) P-2, Q-4, R-1, S-3
- (C) P-3, Q-1, R-4, S-2
- (D) P-4, Q-2, R-3, S-1

May/June 2014

- 17.** The implementation of the Insolvency and Bankruptcy Code fundamentally shifted the legal framework from “Debtors in Possession” to “Creditors in Control”. What does this imply?
- (A) Operational creditors manage daily affairs without obtaining NCLT approval.
 - (B) The IRP takes over management and the CoC supersedes the Board of Directors.
 - (C) The Board retains decision power but reports to a financial creditor group.
 - (D) Promoters are granted a grace period to bid for the resolution of the entity.

Oct/Nov 2007

- 18.** If a transaction conducted by the Corporate Debtor is determined to be an avoidable historical transaction, the NCLT has the power to do all of the following EXCEPT:
- (A) Sentence promoters to mandatory imprisonment.
 - (B) Reverse the transfer of specific assets.
 - (C) Release or discharge the security interest.
 - (D) Restore the legal status quo ante immediately.

and is unable to pay debt obligations.

II. Bankruptcy is the legal recognition of insolvency as beyond resolution.

Which of the statements is/are correct?

- (A) Only I
- (B) Only II
- (C) Both I and II
- (D) Neither I nor II

Oct/Nov 2014

45. Read the following scenario regarding claims in a liquidation process:

During the liquidation process of Zeta Textiles, a secured creditor wishes to prove her claim to the liquidator as secured credit. What specific documentation must she necessarily produce?

- (A) An order from the Debt Recovery Tribunal enforcing the debt.
- (B) A certificate of registration of charge issued by the ROC.
- (C) An invoice demanding payment for capital goods supplied.
- (D) A Non-Disclosure Agreement signed by the liquidator.

May/June 2007

46. Regarding the applicability of the Insolvency and Bankruptcy Code, which of the following statements is incorrect?

- (A) Part-II is applicable to Companies and Limited Liability Partnerships (LLPs).
- (B) Part-II is applicable to Personal Guarantors associated with Corporate Debtors.
- (C) Part-III is applicable to all Corporate Persons incorporated with limited liability.
- (D) Part-III is applicable to Partnership and individual Proprietorship Concerns.

Oct/Nov 2025

47. The liquidator forms a liquidation estate holding assets as a fiduciary. Which of the following assets is NOT excluded from this estate?

- (A) Assets owned by a third party which are in possession of the corporate debtor.
- (B) Assets in security collateral held by financial services providers subject to netting.
- (C) Personal assets of any shareholder or partner of a corporate debtor.
- (D) Tangible and intangible assets owned by the corporate debtor.

May/June 2012

48. Read the following list of entities:

- I. Companies and LLPs
- II. Personal Guarantors to Corporate Debtors
- III. Individuals

Which of the above fall strictly under the jurisdiction of Part-II of the Insolvency and Bankruptcy Code for the purpose of insolvency resolution?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

Oct/Nov 2022

49. Regarding the powers and duties of the Liquidator, which of the following statements is incorrect?

- (A) To collect and verify the claims of all creditors during the process.
- (B) To sell properties strictly by public auction, prohibiting private contracts.
- (C) To conduct the business of the Corporate Debtor for its liquidation.
- (D) To draw, accept, make and endorse any relevant negotiable instrument.

May/June 2019

50. Which of the following is NOT listed as a registered Insolvency Professional Agency (IPA)?

- (A) Institute of Company Secretaries of India
- (B) Institute of Chartered Accountants of India
- (C) Institute of Financial Valuers of India
- (D) Institute of Cost Accountants of India

Oct/Nov 2018

51. The liquidator shall prepare and submit several reports to the NCLT. Which of the following is NOT one of those specifically listed reports?

- (A) Information memorandum
- (B) Preliminary report
- (C) Asset memorandum
- (D) Sale report(s)

May/June 2011

52. Which of the following statements accurately describes Insolvency Professional Entities (IPEs)?

- (A) Mandatory setups acting as the centralized regulatory authority for Insolvency Professionals.

(D) P-4, Q-3, R-2, S-1

Oct/Nov 2005

26. Consider the following methods by which a liquidator is empowered to realise assets:
- I. Selling an asset on a standalone basis.
 - II. Selling the assets in a slump sale.
 - III. Selling a set of assets collectively.
 - IV. Selling the assets in parcels.
 - V. Selling the CD as a going concern.
- Which of the above statement(s) is/are correct?

- (A) I, II, and V only
- (B) II, III, and IV only
- (C) I, III, IV, and V only
- (D) I, II, III, IV, and V

May/June 2020

27. Read the following scenario regarding a Corporate Insolvency Resolution Process (CIRP):

Alpha Ltd has supplied raw materials to Beta Ltd, which Beta Ltd has failed to pay. Alpha Ltd files to initiate a CIRP against Beta Ltd as an Operational Creditor but chooses not to propose the name of an Interim Resolution Professional (IRP). What is the mandated course of action?

- (A) The NCLT appoints an IRP within 14 days of admission in consultation with IBBI.
- (B) The application is automatically dismissed by the NCLT for being incomplete.
- (C) The Board of Directors of Beta Ltd must propose a qualified IRP within 7 days.
- (D) Alpha Ltd must convert its status to a Financial Creditor to proceed alone.

Oct/Nov 2015

28. Within what period is the liquidator statutorily mandated to liquidate the corporate debtor from the liquidation commencement date?

- (A) Ninety days
- (B) One hundred and eighty days
- (C) One year
- (D) Three years

May/June 2013

29. Regarding the Public Announcement of commencement of CIRP, which of the following statements is correct?

- (A) The IRP must make a Public Announcement

within 14 days of appointment.

- (B) The announcement invites all creditors for submission of claims within 14 days from the appointment of the IRP.
- (C) The announcement must be published exclusively on the website of the Corporate Debtor.
- (D) The announcement must be published in a single national English newspaper without requiring regional language publication.

Oct/Nov 2009

30. Read the following scenario regarding the final reporting in liquidation:

In the Final Report prior to dissolution, the liquidator notes that the actual liquidation costs have exceeded the estimated liquidation costs provided earlier in the Preliminary Report. What is the liquidator obligated to do?

- (A) Personally bear the excess costs out of her own remuneration.
- (B) Claw back the excess funds proportionally from the secured creditors.
- (C) Explain the reasons for the excess cost in the final report.
- (D) Withhold the final compliance certificate until the CoC covers the difference.

May/June 2024

31. If the Committee of Creditors decides in its first meeting to replace the Interim Resolution Professional (IRP) with a new Resolution Professional (RP) by a 66% majority, what immediate action must the IRP take?

- (A) File a formal legal appeal with the NCLAT in order to retain her position.
- (B) Hand over the assets to the Board of Directors until a new RP is approved.
- (C) Suspend the CIRP timeline until the IBBI confirms the replacement of the RP.
- (D) File the CoC resolution and the proposed RP's consent letter with the NCLT.

Oct/Nov 2008

32. A micro-enterprise (MSME) commits a default of Rs. 80 lakhs. The corporate debtor wishes to initiate the Pre-packaged Insolvency Resolution Process (PIRP). What is the threshold requirement for creditors' approval for the MSME to file an application with the adjudicating authority?

- (A) Minimum 33 per cent of creditors vote in

May/June 2025

19. A corporate insolvency and bankruptcy resolution process can be initiated when a Corporate Debtor commits a default amounting to at least:

(A) Rs. 10 Lakhs
(B) Rs. 50 Lakhs
(C) Rs. 1 Crore
(D) Rs. 5 Crores

Oct/Nov 2019

20. Read the following scenario regarding the distribution of liquidation value realized:

I. Financial debts owed to unsecured creditors
II. Insolvency resolution process costs
III. Equity shareholders or partners
IV. Wages owed to employees other than workmen for 12 months preceding commencement

What is the correct chronological order of priority for these claims?

(A) I, II, IV, III
(B) II, IV, I, III
(C) II, I, IV, III
(D) IV, II, I, III

May/June 2009

21. Why is the professional initially appointed upon the admission of a Corporate Insolvency Resolution Process (CIRP) designated as an 'Interim' Resolution Professional?

(A) Their license is temporarily issued by the IBBI for a specific trial period.
(B) They are appointed exclusively to manage creditors until the financial ones take over.
(C) The Adjudicating Authority retains the power to act as the permanent Professional.
(D) Only the Committee of Creditors can decide on the regular Resolution Professional.

Oct/Nov 2011

22. When a secured creditor opts to stand outside the liquidation process but the proceeds from the realisation of secured assets are inadequate to repay the debt, what is the status of the unpaid portion of that debt?

(A) It is completely written off and cannot be claimed by the creditor party.
(B) It is elevated to the highest priority, superseding all liquidation costs.
(C) It stands 5th in priority, pari passu with

debts owed to the Government.

- (D) It is converted into equity shares of the liquidated corporate entity.

May/June 2010

23. Consider the following activities in the Corporate Insolvency Resolution Process:

I. Public announcement inviting claims
II. Appointment of valuer
III. 1st meeting of the CoC
IV. Submission of Information Memorandum to CoC

What is the correct chronological order of these activities based on their latest timelines from commencement?

(A) I, III, II, IV
(B) I, II, III, IV
(C) III, I, IV, II
(D) I, IV, III, II

Oct/Nov 2024

24. What is a primary advantage for a secured creditor to relinquish security to the liquidator rather than standing outside the liquidation process?

(A) Higher priority in the waterfall mechanism alongside workmen's dues.
(B) Exemption from paying any pro-rata liquidation costs or workmen's dues.
(C) Requirement to automatically assume the statutory role of the liquidator.
(D) Permission to bypass the NCLT and acquire assets directly at book value.

May/June 2017

25. Match the Corporate Insolvency Resolution Process (CIRP) activity with its corresponding latest timeline from commencement (T):

List I: (CIRP Activity)

P. Submission of Information Memorandum to CoC

Q. Publication of Form G (Invitation of EoI)

R. Provisional List of RAs by RP

S. Final List of RAs by RP

List II: (Timeline)

1. T+54

2. T+75

3. T+100

4. T+115

(A) P-2, Q-1, R-4, S-3

(B) P-1, Q-2, R-3, S-4

(C) P-3, Q-4, R-1, S-2

CoC votes.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) I, II, and IV only
- (C) II, III, and IV only
- (D) I, III, and IV only

Oct/Nov 2012

38. Match the criteria with its corresponding attribute under the Pre-packaged Insolvency Resolution Process (PIRP) framework:

List I: (Criteria)

P. Default threshold for PIRP

Q. Timeline for submission of resolution plan to AA

R. Management control in PIRP

S. Management control in CIRP

List II: (Attribute)

- 1. Minimum Rs. 10 Lakhs (up to 1 Crore)
- 2. 90 days
- 3. Corporate Debtor-in-Possession
- 4. Creditor in control
- (A) P-1, Q-2, R-3, S-4
- (B) P-2, Q-3, R-1, S-4
- (C) P-3, Q-1, R-4, S-2
- (D) P-4, Q-2, R-3, S-1

May/June 2011

39. How is a "Connected Person" defined in the context of eligibility to be a resolution applicant?
- (A) A person who holds a bank account classified as an NPA for over one year.
 - (B) A person related through ownership or control to the Applicant or Debtor.
 - (C) An operational creditor who supplied goods to the debtor in the last year.
 - (D) An Information Utility that authenticates the data of the applicant party.

Oct/Nov 2020

40. During the course of a PIRP for an MSME, the creditors become dissatisfied with the process and decide to terminate it. What minimum voting share of the CoC is required to terminate the PIRP?
- (A) 33%
 - (B) 51%
 - (C) 66%
 - (D) 90%

May/June 2022

41. What is the core function of the evaluation matrix in the Corporate Insolvency Resolution Process?
- (A) Criteria for evaluating the Plan, prepared by the RP and the CoC.
 - (B) The document that dictates the absolute value of physical assets.
 - (C) The list of chronological steps for liquidating the corporate debtor.
 - (D) The voting percentage required by creditors to reject a resolution plan.

Oct/Nov 2023

42. Insolvency is a situation characterized by which of the following conditions?
- (A) Legal recognition of a debtor as bankrupt by an Adjudicating Authority.
 - (B) A state where liabilities exceed assets and debt obligations cannot be met.
 - (C) Appointment of a resolution professional to discharge creditor obligations.
 - (D) Voluntary winding up of a viable business due to strategic realignment.

Oct/Nov 2009

43. Read the following scenario regarding the liquidation of a Corporate Debtor:
The Committee of Creditors of Omega Ltd, representing 66% of the outstanding financial debt, resolves to liquidate the corporate debtor prior to the preparation of the information memorandum. They file this resolution with the Adjudicating Authority. What will be the outcome?
- (A) The NCLT will order the liquidation of the Corporate Debtor based on the CoC's resolution.
 - (B) The NCLT will reject the application as liquidation cannot precede the information memorandum.
 - (C) The NCLT will mandate a 90% majority vote for such a premature liquidation request.
 - (D) The IBBI will take over the management of Omega Ltd to prevent liquidation.

May/June 2016

44. Read the following statements regarding insolvency and bankruptcy:
- I. Insolvency is a situation where liabilities of an individual or an entity exceed its assets

favour.

- (B) Minimum 51 per cent of creditors vote in favour.
- (C) Minimum 66 per cent of creditors vote in favour.
- (D) Minimum 90 per cent of creditors vote in favour.

May/June 2006

- 33.** Read the following scenario regarding the eligibility of a resolution applicant:

Mr. X submits an Expression of Interest as a prospective resolution applicant for Delta Corp. The Resolution Professional rejects the application on the grounds that Mr. X is a promoter of another corporate entity whose account has been classified as a Non-Performing Asset (NPA) for the past 14 months. Under which parameter is Mr. X deemed ineligible?

- (A) Being an undischarged insolvent under the prevailing bankruptcy laws.
- (B) Being a promoter of a corporate with an NPA account for at least one year.
- (C) Executing a personal or corporate guarantee that remains legally unpaid.
- (D) Being disqualified to act as a director under the existing Companies Act.

Oct/Nov 2017

- 34.** The following question consists of two statements, an Assertion (A) and a Reason (R). Select the correct answer using the options given below.

Assertion (A): The Pre-packaged Insolvency Resolution Process (PIRP) operates on a reverse framework compared to the CIRP.

Reason (R): Under PIRP, the model is “debtor-in-possession” where the debtor approaches creditors for resolution with a base resolution plan in place.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

- 35.** The Information Memorandum (IM) compiled by the Resolution Professional includes which of the following information?

- I. Latest annual financial statements.
- II. Assets and liabilities as on insolvency commencement date.
- III. Details of Guarantees given in relation to debt of CD by other persons.
- IV. The evaluation matrix for identifying the best resolution plan.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, III, and IV only
- (D) I, II, and IV only

Oct/Nov 2013

- 36.** Regarding the PIRP timelines and resolution plan, consider the following statements:

- I. The time frame for completion of the entire PIRP process is 120 days.
- II. The RP must submit the resolution plan to the AA within 90 days of commencement.
- III. The PIRP will stand terminated if the plan is not approved by the CoC within the time.
- IV. The MSME defaulter has to submit a base resolution plan within two days of PIRP commencement.
- V. If the resolution plan does not envisage payment to operational creditors in full, competing bids can be invited.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV only
- (B) II, III, IV, and V only
- (C) I, II, IV, and V only
- (D) I, II, III, IV, and V

May/June 2015

- 37.** Consider the following statements regarding the Approval of the Resolution Plan:

- I. The RP submits all plans satisfying compliance requirements to the CoC.
- II. The CoC evaluates each resolution plan strictly as per the evaluation matrix.
- III. The Resolution applicant may attend CoC meetings as an observer.
- IV. The Adjudicating Authority must pre-approve the evaluation matrix before the

- (B) Designated reservoirs of financial information of all entities governed under the Code.
- (C) Statutory bodies that adjudicate corporate insolvency disputes before moving to the NCLT.
- (D) Registered firms providing internal infrastructural support services to their IP members.

Oct/Nov 2020

53. What is the specific purpose of the Asset Memorandum prepared by the liquidator?
- (A) To record the formal minutes of the consultation committee meetings.
 - (B) To summarize the avoidance of historical transactions to the Authority.
 - (C) To certify the constitution of the CoC and report directly to the IBBI.
 - (D) To detail assets for sale and the expected amount of their realization.

May/June 2005

54. Which of the following pairs concerning the Adjudicating and Appellate Authorities is incorrectly matched?
- (A) Adjudicating Authority for Corporate Entities - National Company Law Tribunal (NCLT)
 - (B) Appellate Authority for Corporate - National Company Law Appellate Tribunal (NCLAT)
 - (C) Appellate Authority for individuals and partnerships - Supreme Court
 - (D) Adjudicating Authority for individuals and partnerships - Debt Recovery Tribunals (DRT)

Oct/Nov 2006

55. Which of the following pairs regarding the contents of the Progress Reports is incorrectly matched?
- (A) Details of fee or remuneration : Included
 - (B) Cumulative amount of receipts and payments : Excluded
 - (C) Developments in material litigation : Included
 - (D) Statement indicating progress in settlement of stakeholders : Included

May/June 2021

56. Regarding the Committee of Creditors (CoC), which statement is correct?
- (A) Critical matters (like approval of a resolution plan) are passed by the CoC with a 66% majority.
 - (B) The quorum of CoC is 51% by value.
 - (C) All routine matters are passed by the CoC with a 66% majority.
 - (D) Withdrawal of Application for Resolution under section 12A requires a 66% majority.

Oct/Nov 2010

57. The NCLT has the power to pass an order regarding "Extortionate Credit Transactions" if such transactions took place within:
- (A) Two years preceding the insolvency commencement date.
 - (B) Five years preceding the insolvency commencement date.
 - (C) One year preceding the insolvency commencement date.
 - (D) Any time during the lifetime of the corporate debtor.

May/June 2018

58. The following question consists of two statements, an Assertion (A) and a Reason (R). Select the correct answer using the options given below.
- Assertion (A): The Code shifted the legal framework from "Debtors in Possession" to "Creditors in Control".
- Reason (R): Upon the appointment of the Interim Resolution Professional, she takes over management and the Committee of Creditors supersedes the Board of Directors of the corporate debtor.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

NODIA

Stakeholders' Consultation Committee (as per Liquidation Regulations):

List I: (Stakeholder Class)

P. Secured financial creditors (relinquished security, claims $\geq 50\%$)

Q. Unsecured financial creditors (claims $\geq 25\%$)

R. Workmen and employees

S. Operational creditors (claims $\geq 25\%$)

List II: (Representation Norm)

1. 4 representatives

2. 2 representatives

3. 1 representative

4. 1 representative

(A) P-4, Q-2, R-3, S-1

(B) P-1, Q-2, R-3, S-4

(C) P-2, Q-4, R-1, S-3

(D) P-3, Q-1, R-4, S-2

May/June 2012

7. Part-III of the Insolvency and Bankruptcy Code applies to all of the following EXCEPT:

(A) Registered Partnership Concerns.

(B) Limited Liability Partnerships.

(C) Sole Proprietorship Concerns.

(D) Individual Debtors or Persons.

Oct/Nov 2025

8. The following question consists of two statements, an Assertion (A) and a Reason (R). Select the correct answer using the options given below.

Assertion (A): The liquidator holds the liquidation estate as a fiduciary for the benefit of all the creditors.

Reason (R): The liquidation estate encompasses all assets, including the personal assets of any shareholder or partner of the corporate debtor.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

May/June 2019

9. Consider the following statements regarding Insolvency Professionals (IPs):

I. They are licensed and registered by the Insolvency and Bankruptcy Board of India (IBBI).

II. They can undertake the role of Interim Resolution Professional (IRP) or Resolution Professional (RP).

III. Every IP must be a member of an Insolvency Professional Agency (IPA) before seeking registration.

Which of the statements is/are correct?

(A) I and II only

(B) II and III only

(C) I and III only

(D) I, II, and III

Oct/Nov 2006

10. Which of the following are recognized powers and duties of a liquidator?

I. To evaluate the assets and properties of the CD and prepare a report thereof.

II. To conduct the business of the CD for its beneficial liquidation.

III. To invite and settle claims of creditors and distribute proceeds.

IV. To investigate the financial affairs of the CD to determine undervalued or fraudulent transactions.

Which of the above statement(s) is/are correct?

(A) I, II, and III only

(B) I, III, and IV only

(C) II, III, and IV only

(D) I, II, III, and IV

May/June 2021

11. Operational creditors are defined as those who:

(A) Supply goods or services or make advance payments for receiving them.

(B) Lend money to a Corporate Debtor for repayment without trade transactions.

(C) Hold preference shares and possess specific observatory roles in the CoC.

(D) Provide essential infrastructural support services to Insolvency Professionals.

Oct/Nov 2010

12. The Preliminary Report submitted by the liquidator within seventy-five days from the liquidation commencement date must detail all of the following, EXCEPT:

(A) The detailed capital structure of the

Oct/Nov 2011

65. Regarding the liquidation proceeds and distribution, consider the following statements:
- I. The liquidator shall open a bank account in the name of the corporate debtor followed by the words 'in liquidation'.
 - II. All payments out of the account by the liquidator above five thousand rupees shall be made by cheques drawn or online banking.
 - III. The liquidator shall distribute the proceeds from realisation within ninety days from the receipt of the amount.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

May/June 2010

66. The withdrawal of an Application for Resolution under section 12A requires what majority voting percentage by the Committee of Creditors?
- (A) 33%
 - (B) 51%
 - (C) 66%
 - (D) 90%

Oct/Nov 2024

67. Read the following scenario regarding debt recovery in liquidation:
- Bank A holds a security interest over machinery owned by a Corporate Debtor in liquidation. Bank A opts to stand outside the liquidation process to sell the machinery. Bank A recovers Rs. 50 lakhs, but the outstanding debt is Rs. 70 lakhs. Where will Bank A's remaining Rs. 20 lakhs claim stand in the priority of distribution?*
- (A) 5th in priority, pari passu with debts owed to the Government.
 - (B) 1st in priority, alongside insolvency resolution process costs.
 - (C) 2nd in priority, on par with workmen's dues.
 - (D) It stands extinguished entirely.

May/June 2017

68. The following question consists of two statements, an Assertion (A) and a Reason

(R). Select the correct answer using the options given below.

Assertion (A): Immediately upon the appointment of the Interim Resolution Professional, the powers of the board of directors of the corporate debtor stand suspended.

Reason (R): The Interim Resolution Professional takes control of the management and affairs of the corporate debtor as an on-going concern.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2005

69. Read the following scenario regarding the liquidation timeframe:

The liquidator of a complex manufacturing firm is unable to complete the liquidation process within the prescribed one-year timeframe. What procedural step must the liquidator take?

- (A) Abandon the process and revert the entity to the Board of Directors.
- (B) Declare a fire sale of all assets at a discount without authorization.
- (C) Transfer the case directly to the relevant Debt Recovery Tribunal.
- (D) Apply to the Authority to continue, specifying the additional time needed.

May/June 2020

70. Read the following scenario regarding the constitution of the Committee of Creditors:
- Gamma Enterprises undergoes CIRP. The Interim Resolution Professional discovers that Gamma Enterprises has no financial creditors other than a related party. How must the Committee of Creditors (CoC) be constituted in this scenario?*
- (A) The related party financial creditor acts as the sole primary member of the CoC.
 - (B) The CoC is dissolved, and the entity is sent directly to the liquidation phase.

- 51. (A) Information memorandum**
During the liquidation phase, the liquidator must submit various reports such as the preliminary report, asset memorandum, and sale reports to the adjudicating authority. The information memorandum is a document specifically associated with the corporate insolvency resolution process, used to provide data to potential bidders. It is not part of the standard reporting requirements once the company has transitioned into the liquidation process.
- 52. (D) Registered firms providing internal infrastructural support services to their IP members.**
Insolvency Professional Entities are registered organizations that provide technical and infrastructural support to insolvency professionals. They are not regulatory bodies or data reservoirs like IPAs or Information Utilities. Instead, they function as collaborative firms where professionals can pool resources and expertise to handle complex insolvency cases more effectively. This support structure helps ensure that the resolution process is managed with high professional standards.
- 53. (D) To detail assets for sale and the expected amount of their realization.**
The Asset Memorandum is a vital document prepared by the liquidator to provide a clear inventory of all assets belonging to the liquidation estate. It includes estimates of the value that can be realized from the sale of these assets. This memorandum serves as a roadmap for the liquidation process, helping stakeholders understand the potential recovery and guiding the liquidator's overall sale strategy.
- 54. (C) Appellate Authority for individuals and partnerships - Supreme Court**
For individuals and partnership firms, the Debt Recovery Tribunal serves as the adjudicating authority. Appeals from the DRT are heard by the Debt Recovery Appellate Tribunal, not directly by the Supreme Court. While the Supreme Court is the final stage for appeals from any tribunal, it is not designated as the immediate appellate authority for these specific categories under the Code's framework.
- 55. (B) Cumulative amount of receipts and payments : Excluded**
Progress reports submitted by the liquidator must provide a comprehensive view of the ongoing liquidation. This includes details of the liquidator's remuneration, material litigation, and the progress of stakeholder settlements. Crucially, these reports must include the cumulative amount of receipts and payments made during the period. Therefore, suggesting that these financial details are excluded from the progress report is factually incorrect.
- 56. (A) Critical matters (like approval of a resolution plan) are passed by the CoC with a 66% majority.**
The committee of creditors operates based on specific voting thresholds for different types of decisions. Critical matters, such as the approval of a resolution plan or the replacement of a resolution professional, require a sixty-six per cent majority by value. Routine administrative decisions usually require a lower threshold of fifty-one per cent, while the withdrawal of an application requires a much higher majority.
- 57. (A) Two years preceding the insolvency commencement date.**
The adjudicating authority has the power to examine and set aside extortionate credit transactions that involve unconscionable terms. This power applies to transactions that occurred within two years preceding the insolvency commencement date. By reviewing these historical dealings, the authority can protect the liquidation estate from unfair claims and ensure that the debtor's assets are not depleted by exploitative lending practices.
- 58. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).**
The Code fundamentally changes the management dynamic during insolvency by shifting control from the debtor to the creditors. Upon commencement, the board of directors is suspended, and the interim resolution professional takes over the management. This ensures that the company is run independently and that the interests of the creditors are

persons are ineligible to be a resolution applicant?

- I. An undischarged insolvent.
- II. A willful defaulter.
- III. A person disqualified to act as a director under the Companies Act 2013.
- IV. A person prohibited by SEBI from trading in securities.
- V. A financial entity who is not a related party to the Corporate Debtor.

Which combination is correct?

- (A) I, II, III, and IV only
- (B) II, III, IV, and V only
- (C) I, III, IV, and V only
- (D) I, II, III, IV, and V

Oct/Nov 2017

77. Read the following scenario regarding resolution plans in PIRP:

During a PIRP, the MSME defaulter submits a base resolution plan. The CoC reviews the plan but notes that it does not envisage payment to the operational creditors in full. What is the allowable course of action?

- (A) The Adjudicating Authority must immediately order liquidation.
- (B) Competing bids can be invited.
- (C) The operational creditors automatically gain 100% voting power in the CoC.
- (D) The default threshold is automatically raised to over Rs. 1 crore.

May/June 2008

78. Which of the following is NOT a condition that triggers the initiation of the liquidation process?

- (A) The CIRP fails because no valid resolution plan is received by the RP.
- (B) A stakeholder defaults or deviates from the terms of the approved Plan.
- (C) The Committee of Creditors passes a 51% majority resolution to liquidate.
- (D) The debtor contravenes the resolution plan and a prejudiced party seeks liquidation.

Oct/Nov 2013

79. In a Pre-packaged Insolvency Resolution Process, the existing promoters of the MSME propose a resolution plan without diluting their equity. What is the specific requirement if the Committee of Creditors decides to accept this?

- (A) The promoters must pay a penalty equal to 10% of the default amount.
- (B) The plan must be ratified by the Supreme Court.
- (C) The CIRP process must be initiated in parallel.
- (D) The CoC needs to record reasons for it.

May/June 2015

80. What is the minimum allowable time limit granted to a Resolution Applicant for the submission of a resolution plan from the date of issue of the Request for Resolution Plan (RFRP)?

- (A) 10 days
- (B) 15 days
- (C) 30 days
- (D) 45 days

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- (C) The CoC consists of 18 large operational creditors, plus labor representatives.
- (D) The NCLT appoints several independent directors to function as the interim CoC.

Oct/Nov 2015

- 71.** Consider the following elements involved in the dissolution of a Corporate Debtor:
- I. The assets of the Corporate Debtor must have been completely liquidated.
 - II. The liquidator applies to the Adjudicating Authority for dissolution.
 - III. The Adjudicating Authority orders the Corporate Debtor dissolved from the date of such order.
 - IV. A copy of the order is forwarded to the RoC within seven days to delete the name of the CD.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III only
 - (B) II, III, and IV only
 - (C) I, III, and IV only
 - (D) I, II, III, and IV

May/June 2013

- 72.** Consider the following statements regarding the appointment of valuers in a Corporate Insolvency Resolution Process (CIRP):
- I. The Resolution Professional must appoint two valuers registered with IBBI within 47 days of the insolvency commencement date.
 - II. The valuation received from the valuers can be disclosed to the members of the CoC only against a Non-Disclosure Agreement.
- Which of the above statement(s) is/are correct?
- (A) Only I
 - (B) Only II
 - (C) Both I and II
 - (D) Neither I nor II

Oct/Nov 2021

- 73.** Read the following scenario regarding the Pre-packaged Insolvency Resolution Process (PIRP):
- An MSME successfully concluded a PIRP in January 2021. In February 2023, the MSME faces severe financial distress again and wants to initiate another PIRP. Can the MSME do so under the Insolvency and Bankruptcy Code*

framework?

- (A) Only after a period of three years from the date of the previous PIRP.
- (B) Multiple PIRPs can run concurrently or consecutively without restriction.
- (C) Provided that the new default amount exceeds the limit of Rs. 1 crore.
- (D) An entity is strictly allowed only one PIRP within its entire lifetime.

May/June 2024

- 74.** A resolution plan must provide for several key elements. Which of the following is NOT an explicitly mandated statement required in a resolution plan?
- (A) The amount payable under the resolution plan to operational and financial creditors.
 - (B) A guarantee of permanent employment for all existing workmen of the corporate debtor.
 - (C) How the plan proposes to address the cause of default.
 - (D) A demonstration that the resolution plan is technically and financially feasible and viable.

Oct/Nov 2008

- 75.** Consider the following statements regarding the Pre-packaged Insolvency Resolution Process (PIRP):
- I. It allows MSMEs and creditors to quickly work out a turnaround plan.
 - II. It is applicable for MSME defaults between Rs. 10 Lakhs and Rs. 1 Crore.
 - III. It follows a strictly creditor-in-control model.
 - IV. If any CIRP has been recently filed, and PIRP is filed within 14 days, PIRP will prevail.
 - V. Section 29A of the Code is completely suspended during PIRP.
- Which of the above statement(s) is/are correct?
- (A) I, II, and IV only
 - (B) II, III, and V only
 - (C) I, III, and IV only
 - (D) I, II, and V only

May/June 2006

- 76.** According to Section 29A of the Insolvency and Bankruptcy Code, which of the following

debtor are pooled, ensuring that individual ownership remains protected during the entire liquidation process.

9. (D) I, II, and III

Insolvency Professionals must be licensed and registered with the Insolvency and Bankruptcy Board of India. They must also hold membership in a recognized professional agency. They serve critical roles such as managing the corporate debtor's affairs and facilitating the resolution process. Their duties involve acting as an interim resolution professional or a permanent resolution professional, depending on the current stage.

10. (D) I, II, III, and IV

A liquidator possesses extensive powers to manage the liquidation process, including evaluating the corporate debtor's assets and conducting business for beneficial liquidation. They are responsible for inviting, verifying, and settling creditor claims while distributing proceeds according to the waterfall mechanism. Additionally, they must investigate financial affairs to identify and challenge any undervalued, preferential, or fraudulent historical transactions of the debtor.

11. (A) Supply goods or services or make advance payments for receiving them.

Operational creditors are entities to whom a debt is owed regarding the provision of goods or services, including employment and government dues. Unlike financial creditors who provide capital for interest, operational creditors arise from the core business activities of the debtor. This classification also encompasses those who have made advance payments for goods or services that were not eventually delivered.

12. (C) Expected amount of realization from the sale of an asset standalone.

The Preliminary Report must detail the corporate debtor's capital structure, estimated assets, liabilities, and the proposed plan of action for liquidation. While it provides a broad overview of the entity's financial status, it does not require specific estimates for realized amounts from standalone asset sales at this early stage. Such detailed realization

estimates are typically included in the later Asset Memorandum.

13. (B) Authenticated pooling centres that act as reservoirs of financial information.

Information Utilities serve as a centralized digital database that records and authenticates financial information provided by creditors. Their primary role is to provide reliable evidence of debt and default, which accelerates the insolvency resolution process. By maintaining a high-quality data repository, they help the adjudicating authority and resolution professionals verify claims without relying solely on the records of the debtor.

14. (C) Asset Memorandum : Within seventy-five days from liquidation commencement

The liquidator is required to submit the Asset Memorandum within seventy-five days from the liquidation commencement date. This document provides a comprehensive list of the assets and their estimated values. In contrast, progress reports are due within fifteen days after the end of each quarter, and the preliminary report is also submitted within the initial seventy-five-day period of the liquidation process.

15. (A) P-1, Q-2, R-3, S-4

The Insolvency and Bankruptcy Board of India serves as the primary regulator for the insolvency profession. The National Company Law Tribunal acts as the adjudicating authority for corporate entities, while the Debt Recovery Appellate Tribunal handles appeals for individuals. Ultimately, the Supreme Court of India remains the supreme authority for all legal matters arising from the various levels of adjudication.

16. (B) P-2, Q-4, R-1, S-3

Preferential transactions place specific creditors in a beneficial position, while undervalued transactions occur outside the ordinary course of business at inadequate prices. Fraudulent transactions are those intended to defraud creditors or hide assets from the resolution process. Extortionate transactions involve the receipt of credit under terms that are unconscionable or not in compliance with existing financial laws and regulations.

ANSWERS

1. (B) PIRP cannot run in parallel to CIRP.
The Code prevents simultaneous proceedings to avoid conflict and jurisdictional overlap. If an application for the Corporate Insolvency Resolution Process is pending, the Pre-packaged Insolvency Resolution Process cannot be initiated. This ensures a streamlined resolution mechanism for MSMEs. Section 54C specifically prohibits the initiation of a pre-packaged process if a corporate resolution process is already ongoing for the debtor.
2. (D) I, II, III, and IV
Liquidation under the Code is triggered when the corporate insolvency resolution process fails to produce an approved plan within the statutory period. It also occurs if the Committee of Creditors decides to liquidate at any point during the process. Furthermore, the contravention of an approved plan or the rejection of a plan by the authority necessitates the start of liquidation proceedings.
3. (A) The legal recognition of insolvency as beyond resolution.
Bankruptcy represents the final legal status of an individual or entity that cannot resolve its insolvency. While insolvency is a financial state of being unable to pay debts, bankruptcy is the court-declared conclusion that the situation is irredeemable. This status initiates the formal legal process of distributing the debtor's remaining assets among the various creditors according to the law.
4. (D) I, II, and III
Operational creditors can substantiate their claims during the liquidation process through various verifiable documents. These include records maintained by an information utility, valid contracts for the supply of goods or services, and unpaid invoices demanding payment. Providing multiple forms of evidence ensures that the liquidator can accurately determine the existence and total amount of the debt before finalizing the claims.
5. (D) It consolidates and amends existing laws on reorganization and insolvency resolution.
The term Code signifies a comprehensive legal framework that consolidates and amends numerous existing laws related to reorganization and insolvency resolution. Unlike a standard Act that may cover a single subject, this Code brings together disparate statutes into one unified structure. This systematic approach aims to provide a single window for resolving insolvency cases efficiently across different types of legal entities.
6. (B) P-1, Q-2, R-3, S-4
The Stakeholders Consultation Committee is structured to ensure balanced representation based on the value and nature of claims. Secured financial creditors who relinquish security receive up to four representatives. Unsecured financial creditors are allotted two, while workmen and employees get one representative each. Operational creditors also receive one representative, provided their total claims meet the minimum percentage threshold defined in the liquidation regulations.
7. (B) Limited Liability Partnerships.
Part-III of the Insolvency and Bankruptcy Code specifically governs the insolvency resolution and bankruptcy processes for individuals and partnership firms. However, Limited Liability Partnerships are treated as corporate persons and are therefore covered under Part-II of the Code. This distinction ensures that entities with a corporate structure follow the corporate insolvency resolution process rather than the individual-centric bankruptcy proceedings.
8. (C) Assertion (A) is true, but Reason (R) is false.
The liquidator acts as a fiduciary for the creditors, holding the liquidation estate to maximize value for distribution. However, this estate specifically excludes the personal assets of shareholders or partners, as corporate entities maintain a separate legal identity. Only the assets belonging directly to the corporate

by day 115, ensuring the process moves toward a resolution.

26. (D) I, II, III, IV, and V

A liquidator is granted diverse methods to realize the assets of the corporate debtor to maximize value. They may sell assets individually, in parcels, or collectively through a slump sale. Furthermore, the liquidator is encouraged to sell the entire company as a going concern if possible. This flexibility allows the liquidator to choose the most efficient strategy based on market conditions.

27. (A) The NCLT appoints an IRP within 14 days of admission in consultation with IBBI.

When an operational creditor initiates insolvency proceedings without proposing an interim resolution professional, the adjudicating authority takes over the responsibility. The NCLT will make a reference to the IBBI to recommend a qualified professional. Once the board provides a name, the tribunal appoints that person as the interim resolution professional to manage the debtor's affairs and the formation of the committee.

28. (C) One year

The liquidator is statutorily mandated to complete the entire liquidation process of the corporate debtor within one year from the commencement date. This strict timeframe is intended to ensure swift resolution and prevent the erosion of asset value over time. If the process cannot be completed within this period, the liquidator must seek permission from the authority to extend the duration.

29. (B) The announcement invites all creditors for submission of claims within 14 days from the appointment of the IRP.

Upon appointment, the interim resolution professional must immediately make a public announcement regarding the commencement of the insolvency process. This announcement serves to invite all potential creditors to submit their claims within fourteen days from the professional's appointment. It must be published in widely circulated newspapers and on the debtor's website to ensure all relevant stakeholders are properly notified.

30. (C) Explain the reasons for the excess cost in the final report.

If actual liquidation costs exceed the initial estimates provided in the preliminary report, the liquidator is required to provide a detailed explanation. This information must be included in the final report submitted to the adjudicating authority before the company is dissolved. Transparency in cost management is essential to ensure that the distribution of assets to creditors was handled fairly and professionally.

31. (D) File the CoC resolution and the proposed RP's consent letter with the NCLT.

If the committee of creditors resolves to replace the interim resolution professional, the existing professional must facilitate the transition. This involves filing the committee's resolution and the written consent of the newly proposed resolution professional with the adjudicating authority. The NCLT then reviews the application and officially appoints the new professional to continue the corporate insolvency resolution process through its remaining stages.

32. (C) Minimum 66 per cent of creditors vote in favour.

To initiate the pre-packaged insolvency resolution process, an MSME must obtain the formal approval of its financial creditors. A minimum voting share of sixty-six per cent of the financial creditors is required to authorize the filing of the application with the adjudicating authority. This ensures that the majority of lenders are in agreement with the proposed turnaround strategy before legal proceedings begin.

33. (B) Being a promoter of a corporate with an NPA account for at least one year.

Under Section 29A, a person is ineligible to be a resolution applicant if they control a corporate entity whose account has been classified as a non-performing asset. This disqualification applies if the NPA status has persisted for a period of at least one year before the submission date. This rule prevents promoters of failing companies from regaining control through the resolution process.

- 34.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

The pre-packaged insolvency resolution process utilizes a debtor-in-possession model, which differs significantly from the creditor-in-control approach of the standard resolution process. In PIRP, the existing management remains in control of the business while working with creditors to agree on a resolution plan. This framework is designed to provide a faster, less disruptive path to recovery for eligible small and medium enterprises.

- 35.** (A) I, II, and III only

The Information Memorandum contains crucial data for potential resolution applicants, including the latest financial statements and a detailed list of assets and liabilities. It also includes information about any guarantees provided by third parties for the debtor's debts. However, the evaluation matrix is a separate document used by the committee of creditors to score and compare various resolution plans once they are submitted.

- 36.** (D) I, II, III, IV, and V

The pre-packaged insolvency resolution process is designed for speed, with a total duration of 120 days. The resolution plan must be submitted to the authority within 90 days. If the committee does not approve a plan within this time, the process terminates. Additionally, if the base plan does not fully cover operational creditors, the process allows for competitive bidding from other interested parties.

- 37.** (A) I, II, and III only

The resolution professional ensures that all submitted plans meet legal requirements before presenting them to the committee of creditors. The committee then evaluates these plans using a predefined evaluation matrix. Applicants may attend meetings as observers but cannot vote. Unlike the plans themselves, the evaluation matrix is established by the committee and does not require pre-approval from the adjudicating authority before voting.

- 38.** (A) P-1, Q-2, R-3, S-4

PIRP applies to defaults between ten lakhs and one crore rupees, with a ninety-day window to

submit a resolution plan. It allows the debtor to remain in possession of the business throughout the process. In contrast, the standard CIRP removes management control, placing the creditors in charge. These distinctions reflect the tailored approach intended to help MSMEs resolve financial distress more efficiently.

- 39.** (B) A person related through ownership or control to the Applicant or Debtor.

A connected person is defined by their relationship of ownership, control, or management with the resolution applicant or the corporate debtor. This includes promoters, directors, or any person who has significant influence over the affairs of the entity. Identifying connected persons is vital for determining eligibility under Section 29A to ensure that the resolution process remains transparent and free from any undue influence.

- 40.** (C) 66%

The committee of creditors has the authority to terminate the pre-packaged insolvency resolution process if they are dissatisfied with the progress or the proposed plans. To do so, a resolution must be passed by a voting majority of at least sixty-six per cent. This requirement ensures that a significant majority of the lenders agree that the current process is not viable before ending it.

- 41.** (A) Criteria for evaluating the Plan, prepared by the RP and the CoC.

The evaluation matrix serves as a standardized set of criteria developed by the resolution professional and approved by the committee of creditors. Its purpose is to objectively score and compare different resolution plans based on factors like financial viability and implementation capability. This ensures that the selection of the winning plan is based on merit and provides the best possible outcome for all stakeholders.

- 42.** (B) A state where liabilities exceed assets and debt obligations cannot be met.

Insolvency is a financial condition where an entity is unable to meet its debt obligations as they fall due. It typically occurs when the total liabilities of the individual or corporation exceed the value of its available assets. Recognizing

this state is the first step toward seeking either a resolution through restructuring or the final legal step of bankruptcy and liquidation of assets.

- 43.** (A) The NCLT will order the liquidation of the Corporate Debtor based on the CoC's resolution.

The committee of creditors has the statutory power to decide on liquidation at any time during the resolution process, even before the information memorandum is finalized. If a resolution is passed by a sixty-six per cent majority, the adjudicating authority is generally obligated to honor this commercial wisdom. Consequently, the NCLT will issue a liquidation order based on the committee's decision.

- 44.** (C) Both I and II

Insolvency describes a financial state of distress where debts cannot be paid, while bankruptcy is the formal legal declaration of that state. These two concepts are distinct but related stages in the financial failure of an entity. The Code provides different pathways for addressing each, focusing on rescuing the entity during insolvency and ensuring fair asset distribution once it reaches the stage of bankruptcy.

- 45.** (B) A certificate of registration of charge issued by the ROC.

To prove a claim as a secured creditor during liquidation, specific evidence of the security interest is mandatory. A certificate of registration of charge issued by the Registrar of Companies provides the necessary legal proof that the debt is secured against specific assets. This documentation ensures that the liquidator correctly classifies the creditor in the distribution priority and handles the collateral according to law.

- 46.** (C) Part-III is applicable to all Corporate Persons incorporated with limited liability.

The Code is divided into parts based on the type of debtor. Part-II specifically deals with corporate persons, which include companies and limited liability partnerships. Part-III, on the other hand, is dedicated to individuals and partnership firms. Therefore, claiming that Part-III applies to corporate persons is incorrect, as they are strictly governed by the

corporate insolvency resolution and liquidation processes under Part-II.

- 47.** (D) Tangible and intangible assets owned by the corporate debtor.

The liquidation estate consists primarily of all tangible and intangible assets actually owned by the corporate debtor. While the estate excludes third-party assets in the debtor's possession and the personal assets of shareholders, it must include all properties that legally belong to the company itself. These owned assets form the core pool of value from which the liquidator realizes funds to repay the creditors.

- 48.** (A) I and II only

Part-II of the Code provides the framework for insolvency resolution and liquidation for companies and limited liability partnerships. It also covers personal guarantors to these corporate debtors to ensure a coordinated resolution process. Individual debtors who are not personal guarantors to a corporation do not fall under Part-II; instead, their insolvency and bankruptcy proceedings are governed by the provisions found in Part-III.

- 49.** (B) To sell properties strictly by public auction, prohibiting private contracts.

While public auctions are a common method for realizing assets, liquidators are not strictly prohibited from using private contracts. The regulations allow for private sales under specific circumstances to ensure the best possible value is obtained for the assets. Therefore, stating that private contracts are entirely prohibited is an incorrect interpretation of the flexible powers granted to the liquidator for the purpose of beneficial liquidation.

- 50.** (C) Institute of Financial Valuers of India

Insolvency Professional Agencies are designated bodies that enroll and regulate insolvency professionals. The major professional institutes for chartered accountants, company secretaries, and cost accountants have established registered IPAs. However, the Institute of Financial Valuers of India is not recognized as an IPA under the Code. Valuers belong to a different regulatory category and do not serve the same professional function as insolvency agencies.

17. (B) The IRP takes over management and the CoC supersedes the Board of Directors.
The shift to a creditors in control model means that once the insolvency process begins, the board of directors is suspended. The resolution professional assumes control of the company's management and assets. Decision-making authority regarding the company's future moves from the promoters to the committee of creditors, who must approve major actions and the final resolution plan for the entity.
18. (A) Sentence promoters to mandatory imprisonment.
When an avoidable transaction is identified, the adjudicating authority has the power to reverse asset transfers, discharge security interests, and restore the debtor's financial position. These are civil remedies designed to recover value for the creditors. However, the authority to sentence individuals to mandatory imprisonment is a criminal matter and falls outside the immediate scope of these specific remedial powers.
19. (C) Rs. 1 Crore
The minimum amount of default required to initiate the corporate insolvency resolution process was increased to one crore rupees by the government. This threshold ensures that the resolution mechanism is utilized for significant financial distress rather than minor payment delays. It protects small and medium enterprises from being dragged into insolvency proceedings over relatively small debts while focusing resources on larger cases.
20. (B) II, IV, I, III
The distribution of liquidation proceeds follows a strict hierarchy known as the waterfall mechanism. Costs associated with the insolvency resolution and liquidation processes receive top priority. These are followed by wages owed to employees for the twelve months preceding the process. Financial debts of unsecured creditors rank lower in the order, while equity shareholders or partners are paid last from the remainder.
21. (D) Only the Committee of Creditors can decide on the regular Resolution Professional.
The professional is designated as interim because their initial appointment is made by the

adjudicating authority upon admission of the case. This professional manages the affairs only until the committee of creditors is formed. Once constituted, the committee holds the statutory power to either confirm the interim professional as the permanent resolution professional or appoint a new person to the role.

22. (C) It stands 5th in priority, *pari passu* with debts owed to the Government.
When a secured creditor realizes their security independently but finds the proceeds insufficient, the remaining unpaid balance loses its secured status. Under the distribution waterfall, this unpaid portion is relegated to a lower rank. It specifically stands fifth in priority, where it is treated equally with debts owed to the central and state governments for the preceding two years of operations.
23. (A) I, III, II, IV
The insolvency process begins with a public announcement to invite claims. This is followed by the first meeting of the committee of creditors to decide on the resolution professional. Subsequently, valuers are appointed to determine the fair and liquidation values. Finally, the resolution professional prepares and submits the information memorandum to the committee to facilitate the formulation of resolution plans.
24. (A) Higher priority in the waterfall mechanism alongside workmen's dues.
A secured creditor who relinquishes their security interest to the liquidation estate gains a significant advantage in the distribution order. By doing so, their claims are ranked second in the waterfall mechanism, alongside the dues of workmen for the preceding twenty-four months. This high priority ensures a better chance of recovery compared to being treated as an unsecured creditor for any shortfall.
25. (B) P-1, Q-2, R-3, S-4
The corporate insolvency process follows a strict regulatory timeline for key activities. The information memorandum must be submitted by day 54, while the invitation for expressions of interest is issued by day 75. The resolution professional must then prepare a provisional list of applicants by day 100 and finalize that list

prioritized throughout the resolution process to maximize the entity's value.

59. (A) I, II, III, IV, and V

The distribution of assets in liquidation follows a clear priority list. This starts with the costs of the resolution and liquidation processes, followed by workmen's dues. Unsecured financial debts, government taxes for the last two years, and finally, the interests of equity shareholders are all included in this hierarchy. This structured approach ensures legal certainty for all stakeholders regarding their eventual recovery.

60. (C) Both I and II

Decisions within the committee of creditors are governed by two primary voting thresholds. Most critical actions, including plan approval, require a sixty-six per cent majority. However, the withdrawal of an insolvency application after admission is subject to a much stricter requirement of ninety per cent. These different thresholds reflect the varying levels of importance and impact that these decisions have on the resolution process.

61. (C) Assertion (A) is true, but Reason (R) is false.

A secured creditor who chooses to relinquish their security interest is given high priority in the distribution waterfall, ranking alongside workmen's dues. However, they are not legally prohibited from acting independently; they have the option to stand outside the process and realize their security on their own. The choice depends on which method the creditor believes will yield the highest recovery.

62. (D) I, II, and III

The moratorium declared by the NCLT creates a protective shield around the corporate debtor during the insolvency process. This prohibits the institution of new suits, the transfer or disposal of any assets, and the enforcement of security interests under laws like SARFAESI. This calm period is essential to allow the resolution professional to stabilize the business and find a viable resolution for the entity.

63. (C) Both I and II

Liquidators are empowered to maximize value by selling the corporate debtor as a going concern, typically through an auction. For perishable assets, the flexibility of a private sale is allowed to prevent total loss of value, provided the sale is not to a related party without proper authorization. These provisions ensure that the liquidator can adapt their strategy to different asset types and conditions.

64. (D) 1st meeting of the CoC : T+30

The corporate insolvency resolution process follows a strict regulatory calendar to ensure efficiency. The committee of creditors must be constituted within thirty days from the appointment of the interim resolution professional, and the first meeting must be held within seven days of such constitution. Other milestones, such as claim verification and valuer appointment, have their own specific deadlines, but this timeline for the initial committee formation is a key statutory requirement.

65. (D) I, II, and III

During liquidation, the liquidator must maintain transparency by opening a dedicated bank account and making all significant payments via traceable methods. Furthermore, the distribution of realized proceeds must be completed within ninety days of receipt. These regulations are designed to ensure that funds are handled securely and that creditors receive their share of the assets in a timely and organized manner.

66. (D) 90%

Withdrawing a corporate insolvency resolution process application after it has been admitted by the tribunal is a significant action. To prevent the abuse of the legal process and ensure all stakeholders agree, the Code requires a very high consensus. Specifically, a ninety per cent majority of the committee of creditors by value must vote in favor of the withdrawal for it to proceed.

67. (A) 5th in priority, pari passu with debts owed to the Government.

If a secured creditor realizes their collateral outside of the liquidation process but still has an outstanding debt, that balance is treated as

unsecured. In the distribution waterfall, this shortfall ranks fifth. At this level, the claim is treated equally with debts owed to the central and state governments, meaning it will only be paid after higher-priority claims are fully satisfied.

- 68.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Upon the admission of an insolvency application and the appointment of an interim resolution professional, the board of directors loses its authority. This suspension is necessary to allow the professional to take full control of the debtor's management as a going concern. The professional acts independently to protect assets and manage the business while the committee of creditors works toward a resolution plan.

- 69.** (D) Apply to the Authority to continue, specifying the additional time needed.

If a liquidator cannot complete the liquidation within the mandatory one-year period, they must seek a formal extension. This requires filing an application with the adjudicating authority that explains the reasons for the delay and specifies how much additional time is needed. The process cannot be abandoned or handled through unauthorized sales; it must continue under the supervision of the tribunal.

- 70.** (C) The CoC consists of 18 large operational creditors, plus labor representatives.

If a corporate debtor has no financial creditors or only has related party financial creditors, the committee of creditors must be constituted differently. In such cases, the committee consists of the eighteen largest operational creditors by value. Additionally, it must include one representative elected by all workmen and one representative elected by all employees to ensure the interests of these stakeholders are represented.

- 71.** (D) I, II, III, and IV

Dissolution marks the final end of the corporate debtor's legal existence. This happens after all assets have been liquidated and the liquidator applies to the authority for a dissolution order. Once the order is issued, the company is officially dissolved. A copy of this order must be

sent to the Registrar of Companies to update the records and remove the entity's name.

- 72.** (C) Both I and II

The resolution professional is required to appoint two registered valuers early in the process to determine the company's worth. To maintain the integrity of the bidding process, the valuations must be kept confidential. They can only be shared with the committee members after they sign a non-disclosure agreement, preventing any leakage of information that could influence the quality of incoming resolution plans.

- 73.** (A) Only after a period of three years from the date of the previous PIRP.

The Code prevents the frequent use of the pre-packaged insolvency resolution process by the same entity. An MSME is only eligible to initiate a new PIRP if at least three years have passed since the conclusion of its previous one. This cooling-off period ensures that the mechanism is used for genuine restructuring rather than as a tool to repeatedly avoid debt obligations.

- 74.** (B) A guarantee of permanent employment for all existing workmen of the corporate debtor.

A resolution plan must address the causes of default, prove its financial viability, and specify payments to various creditors. While plans often address labor issues to maintain operations, the Code does not strictly mandate a guarantee of permanent employment for all existing workmen. The primary focus of the plan is the overall economic survival and successful restructuring of the corporate debtor.

- 75.** (A) I, II, and IV only

PIRP is a specialized process for MSMEs with defaults between ten lakhs and one crore rupees. It operates on a debtor-in-possession model, and its application can prevail over a recently filed CIRP. However, Section 29A, which deals with applicant eligibility, is not suspended. It remains active to ensure that ineligible persons do not regain control of the debtor through the PIRP mechanism.

- 76.** (A) I, II, III, and IV only

Section 29A lists several categories of persons who cannot submit a resolution plan, including

undischarged insolvents, willful defaulters, and those disqualified as directors. It also excludes individuals prohibited by SEBI from trading. However, a financial entity that is not a related party to the debtor is generally not disqualified. This distinction allows legitimate outside investors to participate in the company's resolution process.

77. (B) Competing bids can be invited.

In the pre-packaged process, the debtor's base resolution plan must treat operational creditors fairly. If the plan does not provide for full payment to these creditors, the committee of creditors is empowered to invite competing bids from other resolution applicants. This mechanism ensures that the process maximizes value and protects the interests of smaller creditors who might otherwise be neglected.

78. (C) The Committee of Creditors passes a 51% majority resolution to liquidate.

Liquidation is triggered by the failure of the resolution process, the rejection of a plan, or a violation of an approved plan's terms. While the committee of creditors can resolve to liquidate the company, they must do so with a sixty-six per cent majority, not a simple fifty-one per cent majority. This higher threshold ensures the decision is supported by most lenders.

79. (D) The CoC needs to record reasons for it.

One of the unique features of PIRP is that it allows existing MSME promoters to propose a plan that may allow them to retain control. If the committee of creditors chooses to accept such a plan without requiring a dilution of equity, they must formally record their reasons for doing so. This requirement provides transparency and ensures the decision is based on sound commercial logic.

80. (C) 30 days

When the resolution professional issues a request for resolution plans, potential applicants must be given a fair amount of time to prepare their proposals. The regulations mandate a minimum period of thirty days for the submission of these plans. This timeframe ensures that applicants can conduct thorough due diligence and develop comprehensive strategies for the turnaround of the distressed corporate debtor.

for all compliance failures.

Which of the above statements is/are correct?

- (A) I, II, and IV
- (B) I, III, and IV
- (C) II, III, and IV
- (D) I, II, and III

May/June 2005

13. Why must the Chief Compliance Officer (CCO) be a member of the bank's 'new product' committee?

- (A) To approve the marketing budget and sales strategies for all newly introduced financial products and services across the entire branch network.
- (B) To ensure new products and processes have clearance from a compliance perspective and to analyze associated risks appropriately.
- (C) To assign business targets to the compliance team members related to the sales of the new products introduced during the fiscal year.
- (D) To independently dictate the pricing mechanisms and interest rates applicable to new financial offerings without consulting the business verticals.

Oct/Nov 2022

14. Consider the following statements regarding compliance risk and its intersections:

- I. Penalties imposed by regulators bring a "name & shame" effect leading to severe reputational risk.
- II. Reputational risk can damage brand and market value, leading to liquidity risk.
- III. Legal risk represents the possibility that unenforceable contracts can disrupt the operations of a bank.
- IV. Strategic risk encompasses economic, technological, competitive, and regulatory environmental changes.

Which of the above statements is/are correct?

- (A) I, II, and III
- (B) I, III, and IV
- (C) II, III, and IV
- (D) I, II, III, and IV

May/June 2018

15. Which statement is correct regarding the compliance function's approach to cross-border issues?

- (A) Local businesses in foreign jurisdictions are exempt from compliance oversight if they follow the parent bank's home country regulations.
- (B) Banks must deploy only expatriate staff from the home country to manage compliance responsibilities in foreign jurisdictions.
- (C) Compliance with local laws in foreign jurisdictions is strictly voluntary and subordinate to the bank's global strategic objectives.
- (D) Structuring the compliance function to be consistent with local legal requirements under the oversight of the head of compliance.

Oct/Nov 2016

16. Consider the following statements regarding the scope of the compliance function:

- I. Statutory Compliance pertains to adherence to the Banking Regulation Act, Reserve Bank of India Act, and FEMA.
- II. Regulatory Compliance covers guidelines issued by regulators such as RBI, SEBI, and IRDA.
- III. Internal Compliances involve processes and policies codified in the bank's instruction manual.
- IV. Accounting standards applicable to the bank as framed by ICAI fall strictly outside the purview of the compliance function.

Which of the above statements is/are correct?

- (A) I, II, and III
- (B) I, III, and IV
- (C) II, III, and IV
- (D) I, II, and IV

May/June 2014

17. What is the stipulated frequency for reviewing a bank's Compliance Policy?

- (A) The policy should be reviewed at least once every three years.
- (B) The policy should be reviewed at least once every two years.
- (C) The policy should be reviewed at least once a year.
- (D) The policy should be reviewed exclusively when mandated by a new regulatory circular.

- I. Subsidiaries and Regional Rural Banks must establish a compliance function in their institutions with the approval of their respective Boards.
- II. The Chairman/Directors representing the bank on the Boards of these institutions are explicitly forbidden from advising the parent bank's CCO of any compliance failures.

Which of the above statements is/are correct?

- (A) Only I
- (B) Only II
- (C) Both I and II
- (D) Neither I nor II

May/June 2012

7. What is the stipulated minimum fixed tenure for the appointment of a Chief Compliance Officer (CCO) in a bank?
 - (A) Not less than 1 year
 - (B) Not less than 2 years
 - (C) Not less than 3 years
 - (D) Not less than 5 years

Oct/Nov 2014

8. Consider the following statements about the role of the CCO in internal committees:
 - I. The CCO shall be an active voting member in any committee dealing with purchases or sanctions.
 - II. If the CCO is a member of a committee that brings their role into conflict with their compliance responsibility, they may only have an advisory role.
 - III. The CCO should be a member of the 'new product' committee to ensure clearance from all perspectives including compliance.
 Which of the above statements is/are correct?
 - (A) I and II
 - (B) II and III
 - (C) I and III
 - (D) I, II, and III

May/June 2019

9. How frequently must the quality assurance and improvement program of a bank's compliance function be subject to an independent external review?
 - (A) At least once every year
 - (B) At least once in two years
 - (C) At least once in three years
 - (D) At least once in five years

Oct/Nov 2006

10. Consider the following statements on the operational independence of the CCO:
 - I. The Audit Committee of the Board (ACB) shall meet the CCO quarterly on a one-to-one basis, without the presence of senior management including MD & CEO.
 - II. The performance appraisal of the CCO shall be exclusively reviewed by the respective business functional heads.
 - III. The CCO and compliance function shall have the authority to communicate with any staff member and access necessary records.

Which of the above statements is/are correct?

- (A) I and II
- (B) II and III
- (C) I and III
- (D) I, II, and III

May/June 2021

11. How does the concept of compliance risk relate to operational risk?
 - (A) Compliance risk is defined as "Operational Risk come Alive," resulting from inadequate or failed internal processes, people, and systems.
 - (B) Compliance risk is entirely separate and has no bearing on operational processes or external events.
 - (C) Operational risk addresses only cyber threats, whereas compliance risk solely manages physical security breaches.
 - (D) Compliance risk exclusively impacts long-term strategic decisions, whereas operational risk affects day-to-day liquidity management.

Oct/Nov 2010

12. Consider the following statements regarding compliance testing, audit, and accountability:
 - I. The compliance function should perform sufficient and representative compliance testing and report results to senior management.
 - II. The compliance function shall be completely exempt from any internal audit to maintain its absolute independence.
 - III. Compliance risk shall be included in the risk assessment methodology of the internal audit function.
 - IV. Staff accountability should be examined

explanation of Assertion (A).

- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2010

- 23.** The risk of regulatory penalties arises due to non-compliance in all the following areas EXCEPT:
- (A) Prudential and Regulatory Compliance
 - (B) Monetary policy formulation and macroeconomic interest rate adjustments
 - (C) Integrity and Market Conduct
 - (D) Legal and Internal Compliance

Oct/Nov 2024

- 24.** The following question consists of two statements — an Assertion (A) and a Reason (R). Answer the question by selecting the appropriate option.
- Assertion (A): The compliance function must systematically bypass the evaluation of new products prior to their launch.
- Reason (R): The compliance risks in all new products should be thoroughly analyzed and appropriate risk mitigants should be put in place before launching.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

May/June 2017

- 25.** A bank's board-approved Compliance Policy must spell out expectations on compliance culture, covering all the following elements EXCEPT:
- (A) Discretionary business target allocation for compliance staff
 - (B) Tone from the Top
 - (C) Incentive Structure and Effective Communication

(D) Accountability and Challenges thereof

Oct/Nov 2005

- 26.** The following question consists of two statements — an Assertion (A) and a Reason (R). Answer the question by selecting the appropriate option.
- Assertion (A): Subsidiaries and Regional Rural Banks (RRBs) are advised to establish a compliance function in their institutions.
- Reason (R): Any failure or non-compliance of statutory guidelines applicable to subsidiaries and RRBs will not only affect them but also the parent bank's reputation.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

May/June 2020

- 27.** What is the most appropriate procedure a bank should follow to ensure that the indicative parameters of compliance risk in newly launched products are adequately monitored?
- (A) Subjecting all new products to intensive monitoring for the first six months of introduction.
 - (B) Submitting the product design directly to the regulator for a manual review prior to any internal assessment.
 - (C) Delegating the compliance monitoring entirely to the external marketing agencies responsible for the launch.
 - (D) Conducting a single, final compliance audit at the end of the financial year following the product's release.

Oct/Nov 2015

- 28.** For how long must the indicative parameters of compliance risk in newly launched products be subject to intensive monitoring by the bank?
- (A) First three months of introduction
 - (B) First six months of introduction
 - (C) First twelve months of introduction
 - (D) First twenty-four months of introduction

Oct/Nov 2007

18. Consider the following statements concerning the compliance framework and principles:
- The compliance policy must adequately reflect the size, complexity, and compliance risk profile of the bank.
 - The compliance policy must create a disincentive structure for compliance breaches.
 - The compliance function should incorporate a robust mechanism to promptly issue/disseminate regulatory guidelines within the organization.
 - The compliance department should interact with legal, taxation, and audit departments at frequent intervals.
 - The compliance functionary must strictly avoid any informal discussions with the regulator to maintain independence.
- Which of the above statements is/are correct?
- I, II, III, and IV
 - II, III, IV, and V
 - I, III, IV, and V
 - I, II, IV, and V

May/June 2025

19. Which of the following statements is incorrect concerning the Chief Compliance Officer's involvement in committees?
- The CCO can be a voting member of committees dealing with purchases and financial sanctions to ensure strict regulatory oversight.
 - The CCO shall not be a member of any committee that brings their role into conflict with their compliance responsibility.
 - In case the CCO is a member of a committee presenting a conflict of interest, they may only have an advisory role.
 - The CCO should be a member of the 'new product' committee to evaluate the compliance risks of new offerings.

Oct/Nov 2019

20. Consider the following statements regarding the risk landscape in banks:
- Business Risk relates to factors that have a negative impact on profitability, arising from internal conditions and external factors.
 - Annihilation Risk arises from the

possibility of regulatory action closing down the business.

- Operational Risk refers to the loss resulting from inadequate or failed internal processes, people, and systems.
- Strategic Risk relates to the current and prospective impact on earnings arising from adverse business decisions.
- Legal Risk is confined exclusively to the disruption caused by cyber availability breaches.

Which of the above statements is/are correct?

- I, II, III, and IV
- II, III, IV, and V
- I, III, IV, and V
- I, II, IV, and V

May/June 2009

21. Which of the following statements is incorrect concerning the compliance function in subsidiaries and Regional Rural Banks (RRBs)?
- Subsidiaries and RRBs must establish a compliance function within their institutions with the approval of their respective Boards.
 - The compliance departments in subsidiaries will be responsible for functions akin to those in the parent bank.
 - Compliance failures in subsidiaries and RRBs do not impact the reputation of the parent bank.
 - These institutions should arrange for the submission of compliance status/certificates at quarterly intervals to the Bank's Chief Compliance Officer.

Oct/Nov 2011

22. The following question consists of two statements — an Assertion (A) and a Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): The Chief Compliance Officer (CCO) shall not have any reporting relationship with the business verticals of the bank.

Reason (R): The compliance function in the bank has to be adequately enabled and made sufficiently independent.

- Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct

CHAPTER 26

Compliance Function in Banks

May/June 2016

1. How long must the compliance function monitor and report to the regulator on the progress of a Risk Mitigation Plan (RMP) or action plan?
 - (A) Until the end of the current financial year regardless of the regulator's response.
 - (B) Until compliance is accepted by the regulator.
 - (C) Until the bank's internal audit department issues a clearance certificate.
 - (D) Until the external statutory auditors publish their annual report.

Oct/Nov 2009

2. Which of the following pairs relating to the internal framework of the compliance function is incorrectly matched?
 - (A) Compliance manual - Developed function-wise if operating manuals lack specific compliance chapters.
 - (B) Code of conduct - Should envisage working towards earning the trust of society.
 - (C) Compliance testing results - Reported directly to external marketing agencies.
 - (D) Annual Report on compliance - Discloses non-compliance with regulatory guidelines and corrective steps.

May/June 2023

3. How is "Compliance" defined in the context of organizational operations?
 - (A) Adherence to laws, regulations, and ethical practices, including voluntary codes of conduct and internal bank policies and rules.
 - (B) Maximization of shareholder wealth through the strategic minimization of regulatory oversight costs and reduction of financial penalties.
 - (C) Exclusive adherence to primary legislation and statutory provisions issued by the central bank and other national financial regulators.

- (D) Strategic management of cross-border business activities through the circumvention of redundant legal frameworks and operational barriers.

Oct/Nov 2018

4. Consider the following statements:
 - I. The Chief Compliance Officer (CCO) shall not have any reporting relationship with the business verticals of the bank and shall not be given any business targets.
 - II. The CCO shall have a direct reporting line to the MD & CEO and/or the Board/Board Committee (ACB).

Which of the above statements is/are correct?

- (A) Only I
 - (B) Only II
 - (C) Both I and II
 - (D) Neither I nor II

May/June 2007

5. How is "Strategic Risk" defined among non-financial risks?
 - (A) The possibility of severe regulatory action resulting in the mandatory closing down of a business entity by the relevant supervisory authorities.
 - (B) The risk of financial harm to consumers, and the burden of corrective action including potential civil liabilities and heavy financial penalties.
 - (C) The risk of loss resulting from internal marketing errors or a sales force that is not performing up to the expectations of senior management.
 - (D) Impact on earnings or capital from adverse business decisions, improper implementation, or lack of responsiveness to industry changes.

Oct/Nov 2025

6. Consider the following statements regarding subsidiaries and Regional Rural Banks (RRBs):

May/June 2013

29. What is the most appropriate functional autonomy provided to the compliance function regarding the reporting of irregularities?

- (A) It must report all irregularities exclusively to the business unit head responsible for the failure before escalating the matter further.
- (B) Ensuring freedom to report irregularities to senior management without fear of retribution or disfavour from other staff members.
- (C) It must seek formal written approval from the marketing division before documenting any compliance breach or procedural irregularity.
- (D) It is restricted to reporting irregularities only during the annual financial inspection conducted by external bodies or independent auditors.

Oct/Nov 2021

30. According to regulatory eligibility criteria, in which of the following scenarios is a candidate disqualified from being appointed as a Chief Compliance Officer?

- (A) Violating both the maximum age limit of 55 and the minimum 5-year experience requirement in specific risk-related functions.
- (B) He violates only the maximum age limit of 50 years as per the internal policy; however, his experience satisfies all other primary criteria.
- (C) He violates the mandatory requirement to have at least 25 years of overall banking experience before being considered for a CCO role.
- (D) He violates the selection criteria requiring the candidate to be sourced exclusively from an external regulatory body or statutory audit firm.

May/June 2024

31. Which description most appropriately defines the authority vested in the Chief Compliance Officer (CCO) regarding access to bank information?

- (A) The CCO may only access specific branch records and files that have been formally approved by the Head of Corporate Communications.

- (B) The CCO has access to public-facing documentation but is restricted from viewing internal financial records or confidential staff profiles.
- (C) The CCO must obtain a formal court order or Board resolution to access confidential files related to internal administrative procedures.
- (D) The CCO has authority to communicate with any staff member and access all records or files necessary to perform their entrusted duties.

Oct/Nov 2008

32. Which of the following correctly describes the Chief Compliance Officer (CCO) role regarding bank committees?

- (A) The CCO is not permitted to interact with corporate clients under any circumstances during the tenure of their regulatory appointment.
- (B) The CCO must solely head the marketing and sales division alongside their compliance duties to ensure revenue and regulation alignment.
- (C) The CCO must hold an independent veto power over all credit decisions, rather than just being a regular voting member of the Board.
- (D) Refraining from membership in committees dealing with purchases or sanctions, maintaining only an advisory role where conflicts exist.

May/June 2006

33. Arrange the historical regulatory milestones regarding compliance functions in the correct chronological order:

- I. Issuance of regulatory advice for all banks to formulate and implement a Compliance Function Policy.
 - II. Issuance of regulatory communication about Compliance Functions in Banks and the role of the CCO regarding tenure, eligibility, and selection process.
 - III. Publication of an international document by the Basel Committee on Banking Supervision (BCBS) articulating the perception of the compliance function in banks.
- (A) III, II, I

NODIA

- (B) I, III, II
- (C) III, I, II
- (D) II, I, III

Oct/Nov 2017

34. Which of the following is a requirement for the compliance function in banks with cross-border operations?
- (A) Local businesses operate with complete autonomy and have zero reporting obligations to the parent bank's head of compliance or risk management.
 - (B) All cross-border compliance matters must be exclusively managed by the host country's central bank without any internal bank oversight required.
 - (C) Ensuring jurisdiction-specific responsibilities are carried out with head of compliance oversight and risk management cooperation.
 - (D) The local compliance officer should report exclusively to the foreign branch's marketing director to align with local business growth goals.

May/June 2008

35. Match the compliance activity in List I with its mandated timeline or frequency in List II.
- List I: (Compliance Activity)
- P. Independent external review of the quality assurance and improvement program
 - Q. Periodic review of the bank's Compliance Policy
 - R. Minimum fixed tenure of the Chief Compliance Officer (CCO)
 - S. Intensive monitoring of indicative parameters of compliance risk in new products
- List II: (Timeline/Frequency)
- 1. At least once a year
 - 2. Not less than 3 years
 - 3. At least once in three years
 - 4. First six months of introduction
- (A) P-1, Q-3, R-2, S-4
 - (B) P-3, Q-1, R-2, S-4
 - (C) P-3, Q-2, R-1, S-4
 - (D) P-2, Q-4, R-3, S-1

Oct/Nov 2013

36. Which of the following must be clearly defined in a bank's board-approved Compliance Policy?

- (A) The precise marketing budget allocated for the upcoming fiscal year for each major product line.
- (B) The individual daily sales targets for front-line operational staff working in the retail branch network.
- (C) The technical specifications for the bank's core banking software infrastructure and internal server protocols.
- (D) Defining the bank's expectations on compliance culture, including accountability, incentive structures, and 'tone from the top'.

May/June 2015

37. Match the eligibility criteria component for the CCO in List I with its specified requirement in List II.

List I: (Eligibility Criteria)

- P. Maximum Age
- Q. Minimum overall experience in banking or financial services
- R. Minimum experience in Audit/Finance/Compliance/Legal/Risk Management
- S. Required Rank

List II: (Requirement)

- 1. 5 years
 - 2. Senior executive, preferably not below two levels from the CEO
 - 3. 55 years
 - 4. 15 years
- (A) P-3, Q-4, R-1, S-2
 - (B) P-4, Q-3, R-2, S-1
 - (C) P-3, Q-1, R-4, S-2
 - (D) P-2, Q-4, R-1, S-3

Oct/Nov 2012

38. What is the required administrative procedure when a bank intends to transfer the Chief Compliance Officer (CCO) before the completion of their fixed tenure?
- (A) A public press release must be issued in at least two national newspapers declaring the transfer of the officer to another department.
 - (B) The bank must pay a standardized penalty fee to the regulator before executing any transfer of a senior compliance functionary.
 - (C) Providing prior intimation to the regulator's Department of Supervision, supported by a detailed profile and

rationales.

- (D) The transfer must be directly approved by the Ministry of Finance before being implemented by the bank's internal human resources team.

May/June 2011

39. Which of the following pairs concerning cybersecurity resilience breaches is correctly matched?
- (A) Confidentiality breach - Systems are intact, but services are made unavailable.
- (B) Integrity breach - Corruption of data or systems affecting the integrity of information and processing methods.
- (C) Availability breach - Confidential customer data being stolen by an external entity.
- (D) Authentication breach - Destruction of hardware resulting in permanent operational shutdown.

Oct/Nov 2020

40. Upon receipt of the Risk Assessment Report (RAR) and supervisory rating from the regulator, the Chief Compliance Officer is responsible for:
- (A) Presenting the report, mitigation plans, and supervisory ratings to the Board or Audit Committee immediately upon receipt.
- (B) To archive the document securely and restrict access to help prevent any potential panic among the bank's operational staff and stakeholders.
- (C) To unilaterally edit the RAR to remove any negative observations before sharing the final draft with the CEO and other executives.
- (D) To directly publish the full report on the bank's public website for the purpose of ensuring total transparency with all investors.

May/June 2022

41. Which of the following pairs mapping a type of risk to its consequence is incorrectly matched?
- (A) Strategic Risk - Changing demographics altering the immediate demand for consumer credit.
- (B) Annihilation Risk - Arising from possibility of regulatory action of closing down business.

- (C) Reputational Risk - Leading to liquidity risk and associate effect on running of the organization.
- (D) Regulatory Risk - Including financial harm to consumers, and burden of corrective action.

Oct/Nov 2023

42. How is "Compliance Risk" defined in banking supervision?
- (A) The risk of diminished operational capacity resulting from technology failures, security breaches, and systemic vulnerabilities across the IT infrastructure.
- (B) The risk of legal sanctions, material financial loss, or reputational damage resulting from a failure to comply with laws, regulations, and codes of conduct.
- (C) The risk of loss resulting from inadequate internal processes, human error, system failures, or external events affecting the bank's stability.
- (D) The prospective impact on earnings or capital arising from adverse business decisions, improper strategy implementation, or lack of competitive response.

May/June 2016

43. Consider the following statements:
- I. The Compliance department should serve as a reference point for the bank's staff from operational departments for seeking clarifications on various regulatory guidelines.
- II. The authority to use external experts for the purpose of investigation is left strictly to the discretion of the Board of Directors, bypassing the CCO.
- Which of the above statements is/are correct?
- (A) Only I
- (B) Only II
- (C) Both I and II
- (D) Neither I nor II

Oct/Nov 2009

44. What is the definition of "Legal Risk" in the context of banking?
- (A) The risk that gives negative publicity regarding business practices, health, and soundness of operations leading to a persistent lack of confidence.

NODIA

Oct/Nov 2024

66. The annual review of the compliance programme prepared by the compliance function should broadly cover all the following aspects EXCEPT:

- (A) List of all major regulatory guidelines issued during the preceding year and steps taken for compliance.
- (B) Progress in rectification of significant deficiencies pointed out in internal and statutory audits.
- (C) The overall financial profitability metrics and market share acquisition data for the previous fiscal year.
- (D) Compliance failures during the preceding year and consequential losses and regulatory actions.

May/June 2017

67. What is the Chief Compliance Officer's (CCO) responsibility regarding the bank's 'new product' committee?

- (A) Being a member of the 'new product' committee to ensure compliance clearance and risk assessment for all new offerings.
- (B) The CCO must single-handedly develop the full software architecture for all digital lending products before the official market launch.
- (C) The CCO is required to personally authorize every individual digital loan disbursed during the first operational quarter of the new product.
- (D) The CCO must assume the role of the Chief Marketing Officer to oversee customer convenience initiatives and sales promotion strategies.

Oct/Nov 2005

68. When a bank replaces the fear of fines and penalties with a financial management system featuring built-in controls, what is the most appropriate expected outcome?

- (A) It shifts the regulatory burden entirely from the bank's internal staff to external audit agencies.
- (B) It eliminates the need for any internal compliance department or Chief Compliance Officer.
- (C) It guarantees absolute immunity from any future supervisory inspections or statutory audits.

(D) It makes compliance an everyday practice that enables an organization to operate at greater efficiency.

May/June 2020

69. Which type of risk refers to the possibility of legal or regulatory sanctions, material financial loss, or loss of reputation due to failure to comply with laws, regulations, and codes of conduct?

- (A) Business Risk
- (B) Strategic Risk
- (C) Operational Risk
- (D) Compliance Risk

Oct/Nov 2015

70. What is the most appropriate mechanism for the compliance department to assess areas of compliance breaches and continuous failures?

- (A) Utilizing consumer satisfaction surveys conducted by external public relations firms.
- (B) Relying solely on the self-declarations provided by the operational department heads.
- (C) Using inspection and audit findings which serve as a feedback mechanism.
- (D) Analyzing the quarterly profit and loss statements published in national newspapers.

May/June 2013

71. What is the minimum fixed tenure for the appointment of a Chief Compliance Officer (CCO) in a bank?

- (A) The tenure for appointment of the CCO shall be a minimum fixed tenure of not less than 5 years.
- (B) The tenure for appointment of the CCO shall be a minimum fixed tenure of not less than 3 years.
- (C) The tenure must be strictly on a month-to-month contractual basis to ensure accountability.
- (D) The tenure must automatically align with the retirement age without any fixed minimum limit.

Oct/Nov 2021

72. Arrange the following steps in the correct chronological sequence regarding a Chief Compliance Officer's (CCO) responsibilities

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May/June 2019

51. Consider the following statements regarding the annual review of the compliance programme:
- I. The review should cover compliance failures during the preceding year and consequential losses.
 - II. The review should cover progress in the rectification of significant deficiencies pointed out in internal and statutory audit reports.
 - III. The review should strictly outline the projected business revenue to be generated by the compliance department in the next year.

Which of the above statements is/are correct?

- (A) I and II
- (B) II and III
- (C) I and III
- (D) I, II, and III

Oct/Nov 2006

52. What is the core reason for the compliance department interacting with the legal, operational risk management, taxation, and audit departments at frequent intervals?
- (A) To take over the administrative control of these departments to ensure budget optimization.
 - (B) To conduct performance appraisals of the staff working in these independent operational units.
 - (C) To shift the accountability of compliance breaches to the respective functional department heads.
 - (D) To take stock of the latest developments and facilitate coordinated risk management across the bank.

May/June 2021

53. Consider the following statements about the selection and administrative processes for the CCO:
- I. The selection is based on recommendations made by a senior executive-level selection committee constituted by the Board.
 - II. The selection committee recommends candidate names in order of merit for the Board to take the final decision.
 - III. A prior intimation must be provided to the Department of Supervision of the regulator before the appointment or premature transfer/removal of the CCO.

- IV. The regulator issues a fit and proper certification which the bank must countersign before finalizing the appointment.

Which of the above statements is/are correct?

- (A) I, II, and III
- (B) I, III, and IV
- (C) II, III, and IV
- (D) I, II, and IV

Oct/Nov 2010

54. Which statement accurately describes the reporting lines of the Chief Compliance Officer (CCO)?
- (A) The CCO reports directly to the Chief Financial Officer and indirectly to the Head of Business Development.
 - (B) The CCO reports exclusively to the external regulatory bodies and bypasses all internal executive management.
 - (C) The CCO shall have direct reporting lines to the MD & CEO and/or the Board/Board Committee (ACB).
 - (D) The CCO must report to the respective zonal business heads to ensure regional compliance targets are met.

May/June 2005

55. Consider the following statements regarding cross-border compliance issues:
- I. Banks operating in different jurisdictions must ensure compliance with applicable local laws and regulations.
 - II. The organization and structure of the compliance function must be consistent with local legal and regulatory requirements.
 - III. Local businesses are entirely absolved of compliance responsibilities, which rest solely with the parent bank's home office.
 - IV. Compliance responsibilities specific to each jurisdiction are carried out by individuals with appropriate local knowledge and expertise.

Which of the above statements is/are correct?

- (A) I, II, and III
- (B) I, II, and IV
- (C) II, III, and IV
- (D) I, III, and IV

- (B) A factor that may have a negative impact on the operation or profitability of a given organization due to internal conditions and external factors.
- (C) The possibility that lawsuits, adverse judgments, or unenforceable contracts can disrupt or negatively affect a bank's operations or financial condition.
- (D) The potential consequences to the general public and the bank on account of non-compliance with the specific details of cyber resilience guidelines.

May/June 2023

45. Consider the following statements:

- I. The compliance programme should be risk-based and subject to oversight by the head of compliance to ensure appropriate coverage across businesses.
- II. Banks are restricted from carrying out an annual compliance risk assessment, as this task is exclusively reserved for the internal audit department.

Which of the above statements is/are correct?

- (A) Only I
- (B) Only II
- (C) Both I and II
- (D) Neither I nor II

Oct/Nov 2018

46. Under which specific sections of the Banking Regulation Act, 1949, can the Reserve Bank of India (RBI) impose a penalty based on deficiencies in regulatory compliance?

- (A) Sections 10(1) and 35(A)
- (B) Sections 21(2) and 42(1)
- (C) Sections 46(4)(i) and 51(1)
- (D) Sections 24(3) and 45(B)

May/June 2007

47. Consider the following statements regarding the Compliance Policy:

- I. The policy must clearly spell out the bank's Compliance Philosophy and Expectations on Compliance Culture.
- II. The policy shall develop and maintain a quality assurance and improvement program subject to independent external review periodically.
- III. The policy must be reviewed at least once every three years.

Which of the above statements is/are correct?

- (A) I and II
- (B) II and III
- (C) I and III
- (D) I, II, and III

Oct/Nov 2025

48. What is the prescribed maximum age limit for a candidate to be eligible for appointment as the Chief Compliance Officer (CCO)?

- (A) Not more than 50 years
- (B) Not more than 55 years
- (C) Not more than 60 years
- (D) Not more than 65 years

May/June 2012

49. Consider the following statements regarding cybersecurity and resilience frameworks:

- I. Confidentiality breach involves confidential data being stolen.
- II. Availability breach occurs when systems are intact, but services are made unavailable.
- III. Integrity breach refers to the corruption of data or systems affecting the integrity of information and processing methods.

Which of the above statements is/are correct?

- (A) I and II
- (B) II and III
- (C) I and III
- (D) I, II, and III

Oct/Nov 2014

50. What is the primary objective of nurturing a strong compliance culture within a bank?

- (A) To maximize short-term financial performance by reducing expenditure on external audits and minimizing the administrative costs of reporting.
- (B) To centralize all decision-making powers within the compliance department to ensure streamlined business approvals and operational speed.
- (C) To ensure adherence to fair practices, manage conflicts of interest, and maintain customer trust through integrity and fair treatment.
- (D) To eliminate all financial and non-financial risks entirely from the bank's operational framework through rigid and automated controls.

NODIA

vigilance case or adverse observation from the regulator.

May/June 2025

- 61.** Consider the following statements regarding compliance procedures and programs:
- I. Inspection/audit findings should serve as a feedback mechanism for the Compliance department to assess areas of breaches.
 - II. Banks should develop function-wise Compliance manuals if their operating manuals do not contain specific sections on compliance.
 - III. The compliance function should monitor and test compliance by performing sufficient and representative testing.
 - IV. The code of conduct for employees should envisage working towards earning the trust of society.
 - V. The annual review of the compliance programme must solely focus on restructuring the compliance department without assessing regulatory guidelines.
- Which of the above statements is/are correct?
- (A) I, II, III, and IV
 - (B) II, III, IV, and V
 - (C) I, III, IV, and V
 - (D) I, II, IV, and V

Oct/Nov 2019

- 62.** The broad scope of the compliance function includes ensuring adherence to all the following EXCEPT:
- (A) Accounting standards framed by the Institute of Chartered Accountants of India (ICAI) as applicable to the bank.
 - (B) Code of Conduct based on guidelines issued by industry associations and regulatory bodies.
 - (C) Strategic business diversification decisions formulated by marketing units to maximize market share.
 - (D) Statutory regulations under the Banking Regulation Act and Prevention of Money Laundering Act.

May/June 2009

- 63.** The following question consists of two statements — an Assertion (A) and a Reason (R). Answer the question by selecting the appropriate option.
- Assertion (A): Reputational risk can severely

damage brand and market value, leading to liquidity risk and an associate effect on the running of the organization.

Reason (R): Reputational risk is a risk that gives negative publicity regarding a bank's business practices, leading to a lack of confidence in the bank's integrity and operations.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2011

- 64.** Cyber resilience frameworks aim to address broad issues relating to cybersecurity to mitigate compliance risk. These broad issues include all the following EXCEPT:
- (A) Confidentiality breach
 - (B) Availability breach
 - (C) Integrity breach
 - (D) Annihilation breach

May/June 2010

- 65.** The following question consists of two statements — an Assertion (A) and a Reason (R). Answer the question by selecting the appropriate option.
- Assertion (A): The CCO can perform roles like anti-money laundering officer without it being considered an improper 'dual hatting' conflict.
- Reason (R): Roles which do not attract direct conflict of interest can be performed by the CCO where the principle of proportionality justifies it.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

- 9.** (C) At least once in three years
A bank's compliance function must maintain high standards through a quality assurance and improvement program. To ensure objectivity and effectiveness, this program is subject to an independent external review. This review must be conducted at least once every three years. Regular external assessments help identify gaps in the framework and ensure alignment with evolving international regulatory expectations.
- 10.** (C) I and III
Operational independence for the Chief Compliance Officer is maintained through direct access to the Board's Audit Committee. This includes quarterly one-to-one meetings without senior management present. Furthermore, the compliance function must have the authority to communicate with any staff member and access all necessary records. These measures ensure that the compliance function can operate without interference.
- 11.** (A) Compliance risk is defined as "Operational Risk come Alive," resulting from inadequate or failed internal processes, people, and systems. Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or reputational loss a bank may suffer as a result of its failure to comply with laws, regulations, and codes of conduct. While often colloquially described as "operational risk coming alive" because it manifests through failures in internal processes, people, or systems, its formal definition is distinct from the general definition of operational risk. This relationship emphasizes that robust operational controls are fundamental to managing compliance obligations.
- 12.** (B) I, III, and IV
The compliance function must perform representative testing and report results to senior management while ensuring staff accountability for failures. Although independent, compliance is not exempt from internal audit; instead, compliance risk must be integrated into the internal audit risk assessment methodology. This ensures the effectiveness of the compliance function is regularly evaluated as part of the bank's internal controls.
- 13.** (B) To ensure new products and processes have clearance from a compliance perspective and to analyze associated risks appropriately. Involving the Chief Compliance Officer in the new product committee is a preventive measure. It ensures that all new offerings and processes are thoroughly evaluated for potential compliance risks before they are launched. By providing clearance from a regulatory perspective, the compliance function helps the bank avoid legal issues and ensures that appropriate risk mitigants are in place.
- 14.** (D) I, II, III, and IV
Compliance risk is deeply interconnected with other risk categories. Regulatory penalties can trigger reputational damage, which in turn leads to liquidity risk. Legal risk stems from unenforceable contracts or lawsuits, while strategic risk involves adapting to environmental changes. Recognizing these intersections is vital for a bank to maintain its financial health, brand value, and overall operational stability.
- 15.** (D) Structuring the compliance function to be consistent with local legal requirements under the oversight of the head of compliance. For banks with cross-border operations, the compliance function must be structured to adhere to the local legal and regulatory requirements of each jurisdiction. This process is conducted under the oversight of the head of compliance. Ensuring that jurisdiction-specific responsibilities are managed by experts with local knowledge is essential for maintaining global regulatory standards and minimizing international legal risks.
- (A) I, II, and III
The scope of the compliance function includes statutory adherence to major acts like the Banking Regulation Act and FEMA, regulatory compliance with guidelines from bodies like the RBI, and internal compliance with the bank's own manuals. While accounting standards are important, they are typically the primary responsibility of the finance and audit departments rather than the core compliance function.

for Risk Assessment Report (RAR) / Risk Mitigation Plan (RMP) compliances:

- I. Co-ordination with Head Office departments for arranging an Exit meeting with the supervisory team for finalizing the RAR.
 - II. Presentation of RAR, RMPs, and supervisory rating to the Board/committees immediately after receipt.
 - III. Submission of an action plan in a time-bound manner to the Board/committees.
 - IV. Submission to the regulator until compliance is accepted.
- (A) I, II, III, IV
(B) II, I, IV, III
(C) I, III, II, IV
(D) III, II, I, IV

May/June 2024

- 73.** A cybersecurity incident where confidential customer data is stolen by an unauthorized external entity is classified as a:
- (A) Confidentiality breach
(B) Integrity breach
(C) Availability breach
(D) Annihilation breach

Oct/Nov 2008

- 74.** Match the type of risk in List I with its corresponding description in List II.
- List I: (Risk Type)
- P. Regulatory Risk
Q. Reputational Risk
R. Legal Risk
S. Business Risk
- List II: (Description)
1. Gives negative publicity leading to lack of confidence, liquidity risk, and effect on running the organization.
 2. Ineffective marketing efforts resulting in flagging sales due to internal and external conditions.
 3. Possibility that lawsuits or adverse judgments can disrupt operations or result in loss from failure to comply with laws.
 4. Potential consequences including financial harm to consumers and the burden of corrective action.
- (A) P-4, Q-1, R-3, S-2
(B) P-3, Q-4, R-1, S-2
(C) P-4, Q-2, R-3, S-1

(D) P-1, Q-3, R-2, S-4

May/June 2006

- 75.** Which statement correctly describes the relationship between the internal audit function and the compliance function?
- (A) Including compliance risk in internal audit methodologies to evaluate the adequacy and effectiveness of the bank's compliance function.
- (B) Internal audit is strictly forbidden from reviewing the compliance function in any capacity to maintain the latter's absolute operational independence.
- (C) The internal audit should only evaluate compliance risk if specifically requested by a third-party external vendor or a foreign regulatory agency.
- (D) The internal audit mechanism is solely responsible for generating new business leads and has no mandate to review risk management methodologies.

Oct/Nov 2017

- 76.** Match the scope of compliance in List I with its corresponding source or regulatory body in List II.
- List I: (Scope of Compliance)
- P. Statutory Compliance
Q. Regulatory Compliance
R. Code of Conduct
S. Listing Agreement
- List II: (Source/Body)
1. Guidelines issued by organizations like IBA, BCSBI, FEDAI, FIMDDA
 2. Prescribed by Securities and Exchange Board of India (SEBI)
 3. Banking Regulation Act, Reserve Bank of India Act, FEMA
 4. Guidelines issued by regulators such as RBI, SEBI, IRDA
- (A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-1, Q-2, R-3, S-4

May/June 2008

- 77.** What is the required administrative procedure when a bank intends to transfer the CCO before the completion of their fixed tenure?
- (A) It can be executed unilaterally by the CEO without any documentation or

justification to the Board of Directors or regulatory authorities.

- (B) Obtaining prior Board approval following a well-defined, transparent internal administrative procedure for the transfer process.
- (C) It must be approved through a majority vote by the bank's external shareholders during an annual general meeting or special session.
- (D) It can only occur if the CCO is found guilty of a criminal offense by a court of law after a lengthy and exhaustive judicial process.

Oct/Nov 2013

78. Match the compliance reporting requirement in List I with the correct recipient or committee in List II.

List I: (Reporting Requirement)

- P. Prior intimation before appointment or premature transfer of the CCO
- Q. Submission of the risk-oriented activity plan for compliance assessment for approval
- R. Periodic reporting on compliance failures/breaches
- S. Apprising on the extent to which the bank is managing its compliance risk effectively (at least annually)

List II: (Recipient/Committee)

- 1. Board/ACB and circulating to the concerned functional heads
 - 2. Audit Committee of the Board (ACB)
 - 3. Department of Supervision, Reserve Bank of India
 - 4. Audit Committee of Board (to be met by CCO without senior management presence)
- (A) P-3, Q-2, R-1, S-4
 - (B) P-2, Q-3, R-4, S-1
 - (C) P-3, Q-4, R-2, S-1
 - (D) P-4, Q-1, R-3, S-2

May/June 2015

79. Which of the following is a responsibility of the Chief Compliance Officer (CCO) during the Inspection for Supervisory Evaluation (ISE)?
- (A) The CCO is strictly exempt from data gathering and must only participate in the final exit meeting.

- (B) The CCO must personally physically audit all branch records nationwide before submitting data to the team.
- (C) The CCO is required to hire an external audit firm to handle all data requests from the regulator.
- (D) The CCO is responsible for co-ordination with Head Office Departments for getting information/data as required during the ISE.

Oct/Nov 2012

80. Which of the following pairs regarding the responsibilities of the Chief Compliance Officer (CCO) is correctly matched?

- (A) Dual Hatting - Permitted unconditionally to enhance business profitability.
- (B) Reporting Line - Direct reporting exclusively to the external statutory auditors.
- (C) Performance Appraisal - Finalized solely by the business vertical heads.
- (D) Supervisory Evaluation - Co-ordination with HO departments for arranging Exit meeting with the supervisory team.

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ANSWERS

1. (B) Until compliance is accepted by the regulator.
The compliance function is responsible for monitoring the progress of a Risk Mitigation Plan or any action plan required by the regulator. This oversight must continue consistently until the regulator formally accepts the bank's compliance. Reporting is essential to ensure that identified risks are adequately addressed and that the institution adheres to regulatory expectations throughout the process.
2. (C) Compliance testing results - Reported directly to external marketing agencies.
Compliance testing results are sensitive internal data used to evaluate adherence to regulatory standards. These results are reported to senior management and the Board to facilitate corrective actions. Reporting these findings to external marketing agencies is inappropriate and incorrect, as it would violate confidentiality and does not serve the purpose of internal oversight or regulatory accountability.
3. (A) Adherence to laws, regulations, and ethical practices, including voluntary codes of conduct and internal bank policies and rules.
Compliance in a banking context involves much more than just following primary legislation. It encompasses a comprehensive adherence to all applicable laws, regulations, and ethical standards. This includes following voluntary codes of conduct and the bank's own internal policies and rules. Such a broad definition ensures the institution operates with integrity and maintains trust.
4. (C) Both I and II
To ensure independence, the Chief Compliance Officer must not have reporting relationships with business verticals or be given business targets. Operational autonomy is maintained by having a direct reporting line to the MD and CEO or the Board's Audit Committee. These structural safeguards prevent conflicts of interest and allow the compliance function to operate without internal pressure.
5. (D) Impact on earnings or capital from adverse business decisions, improper implementation, or lack of responsiveness to industry changes.
Strategic risk among non-financial risks refers to the current and prospective impact on earnings or capital arising from adverse business decisions. It also includes risks from the improper implementation of those decisions or a lack of responsiveness to changes in the industry. This risk highlights the importance of aligning business strategies with the evolving regulatory and competitive landscape.
6. (A) Only I
Subsidiaries and Regional Rural Banks are required to establish their own compliance functions with Board approval to ensure adherence to relevant guidelines. However, the representatives of the parent bank on these Boards are not forbidden from advising the parent bank's Chief Compliance Officer. Communication regarding compliance failures is necessary to protect the parent bank's overall stability and reputation.
7. (C) Not less than 3 years
The regulatory framework stipulates that the Chief Compliance Officer must be appointed for a minimum fixed tenure to ensure stability and independence in the role. This tenure is set at not less than three years. Such a period allows the officer to implement long-term compliance strategies and maintain oversight without the immediate threat of arbitrary removal.
8. (B) II and III
The Chief Compliance Officer should not be an active voting member in committees dealing with purchases or sanctions to avoid conflicts of interest. However, participation in the new product committee is essential to provide clearance from a compliance perspective. If a committee role conflicts with compliance responsibilities, the officer must limit their involvement to an advisory capacity.

Oct/Nov 2022

56. Which statement correctly articulates the 'dual hatting' principle for the Chief Compliance Officer (CCO)?

- (A) Prohibiting roles that create conflicts of interest, particularly in business, unless justified by the bank's size and complexity.
- (B) The CCO is encouraged to hold multiple business-centric roles to align compliance closely with aggressive revenue generation strategies.
- (C) Dual hatting is strictly mandated across all departments to minimize staffing costs and maximize employee utility in large commercial banks.
- (D) The CCO must simultaneously serve as the Chief Financial Officer to oversee both financial and regulatory risks in a consolidated manner.

May/June 2018

57. Consider the following statements detailing the activities and duties of the Chief Compliance Officer:

- I. To apprise the Board and senior management on regulations, rules, and standards.
- II. To provide clarification on any compliance-related issues.
- III. To conduct assessment of the compliance risk at least once a year.
- IV. To report promptly to the Board/ACB/MD & CEO about major changes relating to compliance risk.
- V. To examine sustenance of compliance as an integral part of compliance testing and annual compliance assessment exercise.

Which of the above statements is/are correct?

- (A) I, II, IV, and V
- (B) II, III, IV, and V
- (C) I, II, III, IV, and V
- (D) I, III, IV, and V

Oct/Nov 2016

58. Which of the following statements is incorrect regarding the responsibilities of the compliance function?

- (A) The compliance function must proactively identify, document, and assess compliance risks associated with business activities.
- (B) The compliance function can engage external experts for investigations only

after receiving mandatory prior approval from the regulator.

- (C) The compliance function should consider ways to measure compliance risk using performance indicators.
- (D) The compliance function should serve as a reference point for staff seeking clarifications on regulatory guidelines.

May/June 2014

59. Consider the following statements regarding the CCO's responsibilities for Risk Based Supervision (RBS) and Inspection for Supervisory Evaluation (ISE):

- I. Co-ordination with Head Office departments for getting information/data required during the ISE.
- II. Co-ordination with HO departments for arranging an Exit meeting with Bank's top executives and the supervisory team.
- III. Presentation of Risk Assessment Report (RAR) and Bank's supervisory rating to the Board/committees.
- IV. Submission of an action plan in a time bound manner and compliance thereto in respect of RAR/RMP.
- V. Ensure formulation and updation of compliance rules exclusively for the human resources department, bypassing core banking functions.

Which of the above statements is/are correct?

- (A) I, II, III, and V
- (B) I, II, III, and IV
- (C) II, III, IV, and V
- (D) I, III, IV, and V

Oct/Nov 2007

60. Which of the following statements is incorrect regarding the eligibility and selection of the Chief Compliance Officer (CCO)?

- (A) The candidate must have an overall experience of at least 15 years in the banking or financial services sector.
- (B) The CCO shall be a senior executive of the bank, preferably in the rank of General Manager or equivalent.
- (C) The selection of the CCO is finalized exclusively by an external regulatory committee independent of the bank's Board.
- (D) The candidate must not have any pending

- 17.** (C) The policy should be reviewed at least once a year.

A bank's Compliance Policy must be dynamic to keep pace with changing laws and regulatory landscapes. Consequently, the policy is required to be reviewed at least once a year. Regular annual reviews ensure that the bank's internal guidelines remain relevant, effective, and fully aligned with the latest instructions issued by supervisory authorities and other governing bodies.

- 18.** (A) I, II, III, and IV

A robust compliance policy must reflect the bank's risk profile, establish disincentives for breaches, and ensure prompt dissemination of regulatory guidelines. It also requires frequent interaction with other departments like legal and audit. Unlike what might be assumed, maintaining informal discussions with the regulator is actually encouraged to foster transparency and proactive management of potential compliance issues.

- 19.** (A) The CCO can be a voting member of committees dealing with purchases and financial sanctions to ensure strict regulatory oversight. To maintain independence and avoid conflicts of interest, the Chief Compliance Officer must refrain from being a voting member of committees involved in business decisions, such as purchases or sanctions. In such cases, their role should be limited to an advisory capacity. This restriction ensures that the compliance officer remains objective when evaluating the bank's adherence to regulations.

- 20.** (A) I, II, III, and IV

Risks in banking include business risk from internal and external factors, annihilation risk from regulatory closure, and operational risk from failed processes. Strategic risk involves the impact of adverse business decisions. While legal risk is significant, it is not limited to cyber breaches; it broadly includes the risk of lawsuits, adverse judgments, or contracts that are legally unenforceable.

- 21.** (C) Compliance failures in subsidiaries and RRBs do not impact the reputation of the parent bank.

It is incorrect to suggest that compliance failures in subsidiaries or Regional Rural Banks do not affect the parent bank. Because these institutions are linked, any regulatory breach or reputational damage they suffer directly impacts the parent bank's brand and standing. Therefore, the parent bank's compliance function must ensure that these entities maintain robust and effective compliance frameworks.

- 22.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

The Chief Compliance Officer must not have reporting relationships with business verticals to ensure the compliance function is sufficiently independent. This independence is necessary for the officer to evaluate the bank's actions objectively and without pressure from revenue-generating units. Therefore, the requirement for independent reporting lines is a direct mechanism to enable an effective and empowered compliance function.

- 23.** (B) Monetary policy formulation and macroeconomic interest rate adjustments.

Banks face regulatory penalties for failing to comply with prudential regulations, market conduct rules, or internal legal standards. However, monetary policy formulation and macroeconomic interest rate adjustments are functions performed by the central bank at a national level. Individual banks are not responsible for formulating these policies and thus do not face compliance risk penalties in this specific area.

- 24.** (D) Assertion (A) is false, but Reason (R) is true.

Bypassing the evaluation of new products is dangerous and contradicts sound risk management. It is essential that the compliance function analyzes the risks associated with every new product before it is launched. This proactive assessment allows for the implementation of appropriate mitigants, ensuring that new financial offerings do not expose the institution to unforeseen legal or regulatory sanctions.

- 25.** (A) Discretionary business target allocation for compliance staff.
A strong compliance culture is built on the “tone from the top,” effective communication, and clear accountability structures. It does not include giving compliance staff business targets. Assigning revenue-based goals to compliance officers would create a direct conflict of interest, compromising their ability to objectively monitor and report on the bank’s adherence to legal and regulatory requirements.
- 26.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Subsidiaries and Regional Rural Banks must establish compliance functions because they are integral to the parent bank’s overall risk profile. Any failure or statutory non-compliance within these entities can lead to significant reputational damage for the parent organization. By implementing internal compliance functions, these institutions help safeguard the integrity and public trust of the entire banking group.
- 27.** (A) Subjecting all new products to intensive monitoring for the first six months of introduction.
To manage compliance risk effectively, banks should subject all newly launched products to intensive monitoring during the first six months of their introduction. This procedure allows the bank to identify and address any unforeseen regulatory or procedural issues early. Such focused oversight ensures that the product operates as intended and remains compliant with all relevant laws and standards.
- 28.** (B) First six months of introduction.
The period immediately following the launch of a new financial product is critical for identifying potential compliance gaps. Regulations require that indicative parameters of compliance risk for these products be subject to intensive monitoring for the first six months. This timeframe is sufficient to observe the product in a live environment and ensure that all operational procedures meet regulatory expectations.
- 29.** (B) Ensuring freedom to report irregularities to senior management without fear of retribution or disfavour from other staff members.
Functional autonomy is essential for an effective compliance function. It ensures that staff can report irregularities and breaches directly to senior management without fear of retribution or pressure from other departments. This freedom is a cornerstone of a healthy compliance culture, allowing for the honest and transparent identification of risks that could otherwise lead to severe regulatory penalties.
- 30.** (A) Violating both the maximum age limit of 55 and the minimum 5-year experience requirement in specific risk-related functions.
Eligibility criteria for a Chief Compliance Officer are strict to ensure competence and reliability. A candidate is disqualified if they exceed the maximum age of 55 or lack the required five years of experience in specialized areas like audit, risk management, or compliance. Meeting these benchmarks ensures that the officer has the professional maturity and expertise to handle regulatory complexities.
- 31.** (D) The CCO has authority to communicate with any staff member and access all records or files necessary to perform their entrusted duties.
To perform their duties effectively, the Chief Compliance Officer must have unrestricted access to the bank’s information. This includes the authority to communicate with any staff member and the right to examine any records or files. Without such broad access, the compliance function would be unable to fully investigate potential breaches or ensure comprehensive adherence to regulatory requirements.
- 32.** (B) Refraining from membership in committees dealing with purchases or sanctions, maintaining only an advisory role where conflicts exist.
The Chief Compliance Officer must avoid membership in committees that could create a conflict of interest with their primary duties, such as those involving financial sanctions or purchases. In these instances, maintaining an advisory role is the appropriate way to provide compliance input without compromising independence. This practice ensures that the

officer's objectivity is preserved when reviewing institutional decisions.

33. (C) III, I, II.

The evolution of the compliance function began with international standards set by the Basel Committee. This was followed by initial national regulatory advice for banks to formulate compliance policies. More recently, specific communications regarding the tenure, eligibility, and selection process for the Chief Compliance Officer were issued. This sequence reflects the increasing formalization and importance of compliance in banking.

34. (C) Ensuring jurisdiction-specific responsibilities are carried out with head of compliance oversight and risk management cooperation.

For banks with cross-border operations, it is vital that compliance responsibilities in each jurisdiction are managed with appropriate local expertise. These local functions must operate under the centralized oversight of the bank's head of compliance and in cooperation with risk management. This structure ensures that the bank adheres to local laws while maintaining a consistent global compliance standard.

35. (B) P-3, Q-1, R-2, S-4.

Compliance activities follow specific timelines: the quality assurance program requires an external review every three years, and the Compliance Policy must be reviewed annually. The Chief Compliance Officer is appointed for a minimum tenure of three years to ensure stability. Additionally, new products must undergo intensive monitoring for the first six months after their introduction to manage initial risks.

36. (D) Defining the bank's expectations on compliance culture, including accountability, incentive structures, and 'tone from the top'. A board-approved Compliance Policy is a high-level document that sets the strategic direction for the compliance function. It must clearly define the institution's expectations regarding compliance culture. This includes establishing accountability, designing appropriate incentive structures, and ensuring a strong "tone from the top." These elements are fundamental to

embedding ethical behavior and regulatory adherence across the entire organization.

NODIA

37. (A) P-3, Q-4, R-1, S-2.

The Chief Compliance Officer must meet specific eligibility criteria, including a maximum age of 55 and at least 15 years of overall banking experience. Furthermore, the candidate needs five years of experience in specialized fields like audit or risk management. Administratively, the CCO should be a senior executive, ideally ranking no more than two levels below the CEO.

38. (C) Providing prior intimation to the regulator's Department of Supervision, supported by a detailed profile and rationales.

To prevent arbitrary removal and protect the independence of the compliance role, banks must follow specific procedures for transferring a Chief Compliance Officer before their tenure ends. This requires providing prior intimation to the regulator's Department of Supervision. The bank must submit a detailed profile of the officer and a clear rationale for the transfer to ensure regulatory oversight.

39. (B) Integrity breach - Corruption of data or systems affecting the integrity of information and processing methods.

Cybersecurity resilience is categorized by the type of impact on data and systems. An integrity breach specifically refers to the unauthorized modification or corruption of data. This affects the reliability of information and the accuracy of processing methods. Such breaches are critical because they undermine the trustworthiness of the bank's records and can lead to significant operational and compliance failures.

40. (A) Presenting the report, mitigation plans, and supervisory ratings to the Board or Audit Committee immediately upon receipt.

Upon receiving the Risk Assessment Report and supervisory rating, the Chief Compliance Officer has a duty to inform the bank's leadership. The report and associated mitigation plans must be presented to the Board or the Audit Committee immediately. This ensures that senior management is aware of regulatory concerns and can take prompt action to address identified risks and deficiencies.

report major changes in risk to the Board and ensure that compliance remains an integral part of the bank's testing processes. These duties collectively ensure that the bank's compliance framework remains robust and effective.

- 58.** (B) The compliance function can engage external experts for investigations only after receiving mandatory prior approval from the regulator.

While the compliance function must proactively identify risks and measure them using indicators, it does not typically need prior approval from the regulator for every use of external experts. Internal policy usually governs the engagement of such experts for investigations. The primary responsibility remains acting as a reference point for staff and ensuring that all business activities are documented and assessed for compliance.

- 59.** (B) I, II, III, and IV

During supervisory evaluations, the Chief Compliance Officer is responsible for coordinating with various departments to provide required data and arranging exit meetings with top executives. They must also present the resulting Risk Assessment Report to the Board and ensure that action plans are submitted and followed. These activities are central to maintaining a transparent and cooperative relationship with the banking regulator.

- 60.** (C) The selection of the CCO is finalized exclusively by an external regulatory committee independent of the bank's Board.

The selection of a Chief Compliance Officer is an internal governance process managed by the bank's Board, not an external regulatory committee. The Board constitutes a selection committee to recommend candidates based on experience and rank. While the regulator is informed and may have a "fit and proper" oversight role, the final decision-making authority rests with the bank's own Board of Directors.

- 61.** (A) I, II, III, and IV

Effective compliance involves using audit findings as feedback, developing detailed compliance manuals, and conducting representative testing.

Furthermore, a strong code of conduct should encourage employees to build societal trust. An annual review must focus on regulatory guidelines and risk assessment rather than just restructuring the department, ensuring that the compliance programme remains aligned with the bank's actual risk profile.

- 62.** (C) Strategic business diversification decisions formulated by marketing units to maximize market share.

The scope of compliance includes adherence to accounting standards, industry codes of conduct, and statutory regulations like the Banking Regulation Act. However, strategic business decisions focused on market share and diversification are primarily business and marketing functions. While compliance reviews the regulatory aspects of such moves, the formulation of these strategic business goals themselves falls outside the core compliance mandate.

- 63.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Reputational risk arises from negative publicity regarding a bank's practices, which can erode public confidence. This lack of trust often leads to liquidity risk as depositors and investors withdraw their support. Because a bank's viability depends on its reputation for integrity, managing this risk is essential for maintaining brand value and ensuring the continued smooth operation of the entire organization.

- 64.** (D) Annihilation breach.

Cyber resilience frameworks focus on mitigating specific technical threats such as confidentiality, integrity, and availability breaches. These categories describe how data and services might be compromised. "Annihilation risk" is a term used in broader risk management to describe the total failure of a business due to regulatory action, but it is not a standard classification within a cybersecurity technical resilience framework.

breach involves data corruption. An availability breach occurs when services are disrupted despite systems being intact. Together, these categories provide a comprehensive view of the threats banks must mitigate to ensure digital security and regulatory compliance.

- 50.** (C) To ensure adherence to fair practices, manage conflicts of interest, and maintain customer trust through integrity and fair treatment.

The primary goal of a strong compliance culture is to embed ethical behavior throughout the bank. By focusing on fair practices and integrity, the bank can effectively manage conflicts of interest and maintain the trust of its customers. This culture goes beyond mere rule-following; it creates an environment where doing the right thing is an integral part of every business activity.

- 51.** (A) I and II

The annual review of the compliance programme must assess the effectiveness of the bank's adherence to regulations. This includes analyzing past failures, consequential losses, and the progress made in rectifying deficiencies identified in audits. The review is focused on risk management and regulatory alignment rather than projecting business revenue, which is a task for the bank's financial and marketing divisions.

- 52.** (D) To take stock of the latest developments and facilitate coordinated risk management across the bank.

Regular interaction between the compliance department and other units like legal, taxation, and audit is essential for a holistic view of the bank's risk landscape. These meetings allow different functions to share information about new developments and coordinate their efforts. This collaborative approach ensures that risk management is consistent across the organization and that potential issues are identified from multiple perspectives.

- 53.** (A) I, II, and III

The selection of a Chief Compliance Officer is a rigorous process involving a board-constituted committee that recommends candidates based on merit. The bank must also provide prior

intimation to the regulator before finalizing the appointment or making any premature transfers. While the bank must ensure the candidate is "fit and proper," the regulator does not typically issue a formal countersigned certificate.

- 54.** (C) The CCO shall have direct reporting lines to the MD & CEO and/or the Board/Board Committee (ACB).

To protect the independence of the compliance function, the Chief Compliance Officer must have a direct reporting line to the bank's highest levels of leadership. This includes the MD and CEO or the Board's Audit Committee. This reporting structure ensures that the compliance officer can escalate issues directly to those responsible for the bank's governance without being blocked by middle management.

- 55.** (B) I, II, and IV

Banks with international operations must comply with the local laws of every jurisdiction where they operate. The compliance function should be structured to meet these local requirements and staffed by individuals with appropriate expertise. It is incorrect to assume that local businesses are absolved of responsibility; rather, they must work under the centralized oversight of the parent bank's head of compliance.

- 56.** (A) Prohibiting roles that create conflicts of interest, particularly in business, unless justified by the bank's size and complexity.

The "dual hatting" principle generally prohibits the Chief Compliance Officer from holding other roles that might create a conflict of interest, especially in revenue-generating business areas. While certain roles like anti-money laundering may be combined based on the bank's size, the primary goal is to ensure the officer's independence is never compromised by competing operational or financial responsibilities.

- 57.** (C) I, II, III, IV, and V

The Chief Compliance Officer has a wide range of responsibilities, including advising senior management on regulations, providing clarifications, and conducting annual compliance risk assessments. They must also

73. (A) Confidentiality breach.

A confidentiality breach occurs when sensitive or private information is accessed or stolen by unauthorized individuals. In banking, the theft of customer data by an external entity is a classic example of this type of incident. Protecting the confidentiality of customer information is a key regulatory requirement, and such breaches can lead to severe legal penalties and a loss of public trust.

74. (A) P-4, Q-1, R-3, S-2.

Different risks have distinct consequences: regulatory risk can cause financial harm to consumers, and reputational risk leads to negative publicity and liquidity issues. Legal risk involves losses from lawsuits or unenforceable contracts, while business risk refers to operational or profitability impacts from internal and external conditions. Correctly identifying these risks allows a bank to apply the appropriate management and mitigation strategies.

75. (A) Including compliance risk in internal audit methodologies to evaluate the adequacy and effectiveness of the bank's compliance function. The internal audit function plays a critical role in verifying the effectiveness of the compliance department. By including compliance risk in its audit methodology, the internal audit team can independently evaluate how well the bank is managing its regulatory obligations. This oversight provides the Board with assurance that the compliance function is operating as intended and identifying risks effectively across the organization.**76. (A) P-3, Q-4, R-1, S-2.**

Compliance involves different sources: statutory compliance comes from acts like the Banking Regulation Act; regulatory compliance follows guidelines from the RBI and SEBI. Industry bodies like IBA provide codes of conduct, and SEBI prescribes listing agreement requirements. Understanding these various sources is essential for the compliance function to ensure the bank meets all its legal, regulatory, and ethical obligations.

77. (B) Obtaining prior Board approval following a well-defined, transparent internal administrative procedure for the transfer process.

Transferring a Chief Compliance Officer before their tenure expires is a significant administrative action that requires careful governance. The bank must obtain prior approval from the Board of Directors, following a transparent and well-defined internal procedure. This requirement ensures that the transfer is justified and not done to undermine the independence of the compliance function, thereby maintaining institutional integrity.

78. (A) P-3, Q-2, R-1, S-4.

Compliance reporting involves several channels: the regulator must be intimated before appointing a CCO, and the Audit Committee of the Board approves the compliance assessment plan. Failures must be reported to the Board and relevant functional heads. Finally, the CCO must meet the Audit Committee annually without senior management present to discuss the overall effectiveness of compliance risk management.

79. (D) The CCO is responsible for co-ordination with Head Office Departments for getting information/data as required during the ISE.

During an Inspection for Supervisory Evaluation, the Chief Compliance Officer acts as the primary coordinator between the bank and the regulator's team. They are responsible for ensuring that all requested data and information are gathered from various head office departments and provided to the inspectors promptly. This central role ensures that the inspection process is organized, transparent, and comprehensive.

80. (D) Supervisory Evaluation - Co-ordination with HO departments for arranging Exit meeting with the supervisory team.

The Chief Compliance Officer's responsibilities during a supervisory evaluation include coordinating with various internal departments and arranging the final exit meeting with the regulator's team. This role is a correct match because the CCO is the designated point of contact for the supervisory process. Other aspects like performance appraisal and

65. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

The Chief Compliance Officer can perform additional roles, such as serving as the anti-money laundering officer, without creating a conflict of interest. This is permissible when the principle of proportionality justifies it, especially in smaller institutions. As long as the additional duties do not involve business targets or revenue generation, they can be integrated into the compliance officer's overall responsibilities.

66. (C) The overall financial profitability metrics and market share acquisition data for the previous fiscal year.

The annual review of the compliance programme focuses on regulatory adherence, significant audit deficiencies, and the consequences of past compliance failures. It is designed to evaluate the effectiveness of the compliance function itself. Financial profitability and market share data are business performance metrics that are reported in financial statements and business reviews rather than in the specific annual compliance review.

67. (A) Being a member of the 'new product' committee to ensure compliance clearance and risk assessment for all new offerings.

The Chief Compliance Officer's role on the 'new product' committee is to provide expert oversight and clearance from a regulatory perspective. This involvement ensures that all new financial products are assessed for potential risks before they are introduced to customers. The officer is not responsible for the technical software architecture or marketing strategies, which are managed by the IT and business departments.

68. (D) It makes compliance an everyday practice that enables an organization to operate at greater efficiency.

Integrating compliance into a financial management system with built-in controls transforms it from a reactive burden into a proactive daily practice. This systematic approach reduces the constant fear of penalties and allows the organization to operate more

efficiently. When compliance is embedded in automated workflows, it ensures that standards are met consistently without requiring constant manual intervention from the staff.

69. (D) Compliance Risk.

Compliance risk is the specific type of risk associated with the failure to follow laws, regulations, and industry codes of conduct. Such failures can lead to legal sanctions, financial losses, and significant damage to a bank's reputation. Managing this risk is the primary focus of the compliance function, ensuring that the institution maintains its integrity and meets its obligations to regulators and customers.

- (C) Using inspection and audit findings which serve as a feedback mechanism.

Inspection and audit findings are essential feedback mechanisms for the compliance department. They provide objective evidence of where procedural failures and compliance breaches are occurring within the bank. By analyzing these reports, the compliance function can identify persistent issues and implement targeted corrective actions. This data-driven approach is much more reliable than relying solely on self-declarations or external surveys.

71. (B) The tenure for appointment of the CCO shall be a minimum fixed tenure of not less than 3 years.

To ensure that the Chief Compliance Officer can perform their duties with independence and stability, regulations mandate a minimum fixed tenure. This period is set at not less than three years. A fixed tenure prevents frequent changes in leadership and protects the officer from being removed for making difficult but necessary compliance decisions, thereby strengthening the bank's overall governance framework.

72. (A) I, II, III, IV.

Managing regulatory compliance follows a logical sequence: first, coordination for an exit meeting to finalize the report; next, presenting the report and ratings to the Board. This is followed by submitting a time-bound action plan for approval. Finally, the bank must provide ongoing reports to the regulator until the compliance actions are officially accepted and the identified risks are mitigated.

CHAPTER 27

Compliance Audit

May/June 2023

1. Read the following scenario regarding Gamma Bank and answer the question that follows:
Gamma Bank wants to ensure that its tax provisions are accurately reflected in its statements. Which Accounting Standard will specifically apply in determining the amount of expense or saving related to taxes on income, including the creation of Deferred Tax Assets (DTA) or Deferred Tax Liabilities (DTL)?
- (A) Accounting Standard 9
 - (B) Accounting Standard 15
 - (C) Accounting Standard 18
 - (D) Accounting Standard 22

Oct/Nov 2016

2. Which of the following pairs concerning disclosures under listing regulations is incorrectly matched?
- (A) Regulation 46 — Information to be Displayed on the Website
 - (B) Regulation 47 — Publishing in the newspaper
 - (C) Regulation 29 — Draft Scheme of Arrangement
 - (D) Regulation 30 — Disclosure of events or information

May/June 2011

3. In the context of the presentation and disclosure requirements for financial statements of banking entities, the term 'banks' collectively refers to which of the following?
- (A) Commercial Banks and Urban Co-operative Banks
 - (B) Commercial Banks and Primary Agricultural Credit Societies
 - (C) Commercial Banks and Non-Banking Financial Companies
 - (D) Public Sector Banks and Foreign Banks

Oct/Nov 2007

4. Consider the following statements regarding the preparation of Consolidated Financial Statements (CFS):

- I. The CFS shall normally include a consolidated balance sheet, consolidated statement of profit and loss, principal accounting policies, and notes to accounts.
- II. A Regional Rural Bank (RRB) shall be treated as a wholly-owned subsidiary in the CFS of its sponsor bank.

Which of the above statement(s) is/are correct?

- (A) Only I
- (B) Only II
- (C) Both I and II
- (D) Neither I nor II

May/June 2015

5. While complying with Accounting Standard 17 regarding Segment Reporting, how should banks classify their reporting formats?
- (A) Geographical segment as primary and business segment as secondary
 - (B) Wholesale banking as primary and retail banking as secondary
 - (C) Domestic segment as primary and international segment as secondary
 - (D) Business segment as primary and geographical segment as secondary

Oct/Nov 2022

6. Consider the following statements regarding disclosures relating to Credit Default Swaps (CDS):
- I. Banks using a proprietary model for pricing CDS shall disclose only the standard model price in terms of extant guidelines in the Notes to Accounts.
 - II. The Notes to Accounts should include an explanation of the rationale behind using a particular model over another.

Which of the above statement(s) is/are correct?

- (A) Only I
- (B) Only II
- (C) Both I and II
- (D) Neither I nor II

reporting lines have specific requirements that ensure independence from business verticals.

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- 41.** (A) Strategic Risk - Changing demographics altering the immediate demand for consumer credit.

Strategic risk is correctly defined as the impact on earnings or capital arising from adverse business decisions or improper implementation. The example of changing demographics affecting credit demand is better classified as a business or market environment factor rather than a strategic decision failure. Understanding these distinctions is important for correctly identifying and mitigating the various non-financial risks a bank faces.

- 42.** (B) The risk of legal sanctions, material financial loss, or reputational damage resulting from a failure to comply with laws, regulations, and codes of conduct.

Compliance risk is specifically defined as the potential for legal sanctions, financial loss, or damage to reputation that a bank faces when it fails to adhere to applicable laws, regulations, and industry codes. This risk highlights the importance of maintaining integrity and following both mandatory rules and voluntary standards to ensure the long-term viability and public trust of the institution.

- 43.** (A) Only I

The compliance department acts as a central reference point for staff to seek clarifications on complex regulatory guidelines. This support helps ensure that operational departments implement rules correctly. While the Board has high-level authority, the compliance function itself is generally empowered to use external experts for investigations when necessary, rather than such authority being left strictly to the Board.

- 44.** (C) The possibility that lawsuits, adverse judgments, or unenforceable contracts can disrupt or negatively affect a bank's operations or financial condition.

Legal risk is the potential for financial loss or operational disruption stemming from legal issues. This includes being subject to lawsuits, receiving adverse judicial judgments, or discovering that contracts are not legally enforceable. Managing legal risk is a core component of the compliance function, as it

protects the bank's assets and ensures that its business dealings are legally sound.

- 45.** (A) Only I

A bank's compliance programme should be risk-based and managed by the head of compliance to ensure all business areas are covered. Contrary to the idea that annual compliance risk assessments are reserved for internal audit, the compliance function is actually responsible for conducting its own assessments. This proactive approach allows the department to identify and mitigate risks throughout the year.

- 46.** (C) Sections 46(4)(i) and 51(1).

The Reserve Bank of India derives its power to impose penalties for regulatory deficiencies from specific provisions of the Banking Regulation Act, 1949. Sections 46(4)(i) and 51(1) are the legal grounds used by the regulator to penalize banks for non-compliance. These sections ensure that the regulator has the necessary enforcement mechanisms to maintain discipline and stability within the financial system.

- 47.** (A) I and II

The Compliance Policy should clearly define the bank's philosophy and culture while establishing a quality assurance program subject to external review. However, the requirement for policy review is at least once a year, not every three years. Frequent reviews are necessary because the regulatory environment is constantly changing, requiring the bank to update its internal policies to remain fully compliant.

- 48.** (B) Not more than 55 years.

To ensure that the Chief Compliance Officer possesses the necessary experience and professional longevity, the regulatory guidelines set a maximum age limit. A candidate for this position should not be more than 55 years old at the time of appointment. This requirement helps institutions select leaders who can provide stable and experienced oversight for the duration of their fixed tenure.

- 49.** (D) I, II, and III

Cybersecurity resilience frameworks address three main types of breaches: confidentiality, integrity, and availability. A confidentiality breach involves data theft, while an integrity

May/June 2008

7. Under Listing Obligations and Disclosure Requirements, how many days in advance must a listed entity give prior intimation to the stock exchange regarding a board meeting considering financial results?
- (A) At least two working days, excluding the date of the intimation and date of the meeting
- (B) At least five working days, excluding the date of the intimation and date of the meeting
- (C) At least seven working days, including the date of the intimation
- (D) At least eleven working days before the proposal is placed

Oct/Nov 2011

8. Consider the following statements regarding common observations on the Internal Audit (IA) function in banks:
- I. Risk rating of audit areas is mostly based on leading indicators rather than lag indicators.
- II. The IA function in banks is often underutilised because critical risk areas are not consistently prioritized.
- III. External validation of the IA framework should be carried out on a periodic basis.
- Which of the above statement(s) is/are correct?
- (A) I and II
- (B) II and III
- (C) I and III
- (D) I, II, and III

May/June 2025

9. Except for entities where the internal audit function is a specialised function managed by career internal auditors, what is the preferred minimum tenor for the appointment of the Head of Internal Audit (HIA)?
- (A) One year
- (B) Two years
- (C) Three years
- (D) Five years

Oct/Nov 2005

10. Banks are required to make additional disclosures in the "Notes to Accounts". Consider the following items:
- I. Details of fees/brokerage earned in

respect of insurance broking, agency and bancassurance business.

- II. Value of Top 20 Deposits, Advances and NPA along with its share to total Deposits, total advances and Total NPA.
- III. Personal investment portfolios of the Board of Directors.

Which of the above statement(s) is/are correct?

- (A) I and II
- (B) II and III
- (C) I and III
- (D) I, II, and III

May/June 2017

11. A bank wishes to utilise its share premium account. Subject to compliance with applicable laws and without prior approval of the regulator, for which of the following purposes can the share premium account be utilised?
- (A) To meet incremental share issue expenses directly attributable to the transaction.
- (B) To write off preliminary expenses and those relating to the issue of debt instruments.
- (C) To make necessary appropriations to the Statutory Reserve or other mandatory funds.
- (D) To write off non-performing assets that have been fully provisioned by the bank.

Oct/Nov 2019

12. Consider the following statements regarding the Head of Internal Audit (HIA):
- I. The HIA shall be a senior executive of the bank with the ability to exercise independent judgement.
- II. In foreign banks operating in India as branches, the HIA shall report to the internal audit function in the controlling office/head office.
- III. The remuneration of internal audit staff must be heavily linked to the financial performance of the business lines they audit to ensure accountability.
- IV. The Audit Committee of the Board shall meet the HIA at least once in a quarter without the presence of senior management.

Which of the above statement(s) is/are correct?

- (A) I, II, and III

appropriations to the Statutory Reserve that Commercial Banks (excluding Local Area Banks and Regional Rural Banks) shall transfer?

- (A) Not less than 15 per cent
- (B) Not less than 20 per cent
- (C) Not less than 25 per cent
- (D) Not less than 30 per cent

May/June 2015

47. Consider the following statements regarding the Information System (IS) Audit within the Internal Audit Department:

- I. The scope of IS Audit covers all information systems used by the bank in related activities, viz., system planning, organisation, acquisition, implementation, delivery and support.
- II. The IS Audit scope completely excludes testing on the processes for planning and organizing the information systems activities.
- III. The scope covers monitoring of implementation in terms of process effectiveness, input/output controls, and accomplishments of system goals.

Which of the above statement(s) is/are correct?

- (A) I and II
- (B) II and III
- (C) I and III
- (D) I, II, and III

Oct/Nov 2022

48. Banks should segregate credit entries outstanding in the inter-branch account and transfer them to a separate 'Blocked Account' if they have been outstanding for more than what duration?

- (A) Two years
- (B) Three years
- (C) Four years
- (D) Five years

May/June 2008

49. Under listing regulations for publishing in the newspaper, a listed entity shall publish information in two newspapers (one National English daily, and one local regional language daily). Consider the following items:

- I. Notice of meeting of the board of directors where financial results shall be discussed.

II. Financial results, along with the modified opinion(s) or reservation(s), if any, expressed by the auditor.

III. Statements of deviation(s) or variation(s) on a quarterly basis, after review by the audit committee.

Which of the above statement(s) is/are correct?

- (A) I and II
- (B) II and III
- (C) I and III
- (D) I, II, and III

Oct/Nov 2011

50. Market discipline in the banking sector is recognised as one of the three pillars under the Basel II framework. For market discipline to work effectively, which of the following conditions is fundamentally required?

- (A) Mandatory access for depositors to internal audit reports before investment decisions.
- (B) Direct quarterly interactions between the Board of Directors and market participants.
- (C) Access for market participants to timely and reliable information to assess risks.
- (D) Full central bank disclosure of all supervisory actions taken against the institution.

May/June 2025

51. Consider the following statements regarding the preparation of Consolidated Financial Statements (CFS) according to applicable accounting standards:

- I. The terms 'parent', 'subsidiary', 'associate', 'joint venture', 'control', and 'group' shall have the same meaning as ascribed to them in the applicable accounting standards.
- II. If different entities in a group are governed by different accounting norms, the balance sheet size may be used to determine the dominant activity.
- III. Accounting norms specified by the regulator of the dominant activity may be used for the consolidation of similar transactions and events.

Which of the above statement(s) is/are correct?

- (A) I and II
- (B) II and III

audit function.

III. The Risk Management Committee of the Board should oversee the bank's internal audit function.

IV. The Head of Internal Audit is responsible for ensuring compliance with sound internal auditing standards and code of ethics.

V. Regardless of whether experts are hired, the board of directors remains ultimately responsible for the internal audit function.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and V
- (B) I, II, IV, and V
- (C) II, III, IV, and V
- (D) I, III, IV, and V

May/June 2024

19. Which of the following statements regarding the principles relevant to the internal audit function is incorrect?

- (A) Boards relinquish ultimate responsibility when hiring external experts for audit.
- (B) Every activity of the banking group should fall within the internal audit scope.
- (C) The internal audit function must be independent of the audited activities of the bank.
- (D) Banks should maintain a quality assurance program covering all aspects of audit activity.

Oct/Nov 2008

20. Consider the following events that should be disclosed by a listed entity if considered material (Para B):

- I. Commencement or any postponement in the date of commencement of commercial production.
- II. Capacity addition or product launch.
- III. Disruption of operations due to natural calamity.
- IV. Giving of guarantees or indemnity or becoming a surety for any third party.
- V. Corporate debt restructuring ("CDR").

Which of the above statement(s) is/are correct?

- (A) I, II, III, and V
- (B) I, III, IV, and V
- (C) I, II, III, and IV

(D) II, III, IV, and V

May/June 2006

21. Which of the following statements concerning prior intimations under listing regulations is incorrect?

- (A) Intimation for a proposal of voluntary delisting by the listed entity must be given to the stock exchange.
- (B) The listed entity shall give intimation of at least eleven working days before placing a proposal for any alteration in the date of interest payment on debentures.
- (C) Intimation shall be given in case of any annual general meeting proposed to be held for obtaining shareholder approval for further fund raising.
- (D) Prior intimation is not required for a board meeting proposal for the declaration of bonus securities, if it is not on the agenda papers.

Oct/Nov 2017

22. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): Internal auditors should generally not investigate fraud themselves.

Reason (R): Internal auditors often lack the specific experience and expertise required, and they must avoid conflicts of interest since they evaluate the fraud control framework.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2018

23. Under Accounting Standard 17 regarding Segment Reporting, banks are required to adopt specific business segments. Which of the following is NOT listed as a standard business segment for this purpose?

- (A) Treasury

- (B) Information Technology Services
- (C) Retail Banking
- (D) Corporate/Wholesale Banking

Oct/Nov 2013

24. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): Under Accounting Standard 23, an investment where a bank acquires more than 20% voting power in a borrower entity strictly as a protective measure in satisfaction of its advances may not be treated as an investment in an associate.

Reason (R): The test for treating an investment as an associate is not merely the proportion of investment but the intention to acquire the power to exercise significant influence.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2014

25. In the reporting framework and monitoring compliance, branches observing breaches/non-compliances report the same in a structured format to the Regional/Zonal Office (RO/ZO). The RO/ZO then forwards it to the Compliance department at the Central Office under copy to all of the following, EXCEPT:
- (A) The External Statutory Auditor
 - (B) The Functional General Manager's Office (FGMO)
 - (C) The respective Functional department
 - (D) The Risk officer

Oct/Nov 2012

26. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): A listed entity must update the

disseminated information on its website within 2 days of any change taking place.

Reason (R): The principles governing disclosures require that channels for disseminating information shall provide for equal, timely and cost-efficient access to relevant information by investors.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2010

27. Which of the following best describes the reporting line of the Head of Internal Audit (HIA) to ensure independence?
- (A) HIA reports to the ACB, CEO, or WTD, without business vertical relationships.
 - (B) HIA reports exclusively to the Chief Financial Officer and has assigned business targets.
 - (C) HIA reports to the external statutory auditors for the performance appraisal.
 - (D) HIA reports to the Chief Risk Officer to consolidate the lines of defence.

Oct/Nov 2020

28. Read the following scenario regarding Omega Bank and answer the question that follows:
- Omega Bank is restructuring its internal audit department to align with regulatory guidelines. The Board decides that the Head of Internal Audit (HIA), Mr. Sharma, will report directly to the Chief Financial Officer (CFO). Additionally, the Board links Mr. Sharma's remuneration directly to the profitability of the retail business line.*

In the context of Mr. Sharma's remuneration, why does the Bank's decision violate the principles of internal audit?

- (A) Remuneration for the HIA must be fixed by the Indian Banks' Association only.
- (B) Remuneration should only be linked to the performance of the wholesale division.
- (C) Linking pay to business performance

creates conflicts and compromises objectivity.

- (D) The HIA is legally required to work on a pro bono basis to ensure integrity.

May/June 2022

29. Which of the following captures the primary distinction between company law and banking legislation regarding the protection of interests?
- (A) Company law safeguards the interest of the depositor, while banking legislation protects the stockholder.
- (B) Company law safeguards the interest of the stockholder, while banking legislation protects the depositor.
- (C) Both company law and banking legislation primarily exist to maximize tax revenues for the government.
- (D) Banking legislation focuses on employee benefits, whereas company law focuses on creditor rights.

Oct/Nov 2023

30. Read the following scenario regarding Zenith Bank and answer the question that follows:
Zenith Bank is preparing its annual financial statements. It identifies several unreconciled credit entries in its inter-branch accounts that have been outstanding for six years. Simultaneously, in its Nostro accounts, it finds unreconciled debit entries outstanding for two and a half years, and unreconciled credit entries outstanding for four years.
 How must Zenith Bank treat the unreconciled credit entries in its inter-branch accounts that have been outstanding for six years?
- (A) Transfer them immediately to the Profit and Loss account as miscellaneous income.
- (B) Reverse the entries directly against the capital reserves of the bank.
- (C) Segregate and transfer them to a separate 'Blocked Account' under 'Other Liabilities and Provisions - Others'.
- (D) Keep them in the inter-branch account indefinitely until reconciled.

May/June 2016

31. During an Audit Committee of the Board (ACB) meeting, a resolution is carried by a majority vote but opposed by a member.

What is the most appropriate requirement for the dissenting member?

- (A) The member must resign from the Audit Committee of the Board (ACB) immediately.
- (B) The member is required to report the dissent directly to the regulatory authorities.
- (C) The dissent is nullified as two-third affirmative votes are required to pass any resolution.
- (D) Provide a written statement to the Board of Directors explaining the dissent reasons.

Oct/Nov 2009

32. Read the following scenario regarding Zenith Bank and answer the question that follows:
Zenith Bank identifies unreconciled credit entries in its Nostro accounts that have been outstanding for four years. How should Zenith Bank account for these entries?
- (A) Transfer them to the Statutory Reserve to augment the total capital of the bank.
- (B) Treat them as an investment in an associate entity under standard regulations.
- (C) Utilise them to pay dividends to shareholders at the end of the financial year.
- (D) Transfer to a Blocked Account as liabilities reckoned for CRR/SLR purposes.

May/June 2005

33. Arrange the following prior intimation requirements under listing regulations in ascending order of the minimum advance notice days required:
- I. Prior intimation for a board meeting to consider financial results.
- II. Prior intimation for a board meeting to consider a proposal for buyback of securities.
- III. Prior intimation for any alteration in the form or nature of listed securities.
- (A) II, I, III
- (B) I, II, III
- (C) II, III, I
- (D) III, II, I

Oct/Nov 2025

34. Read the following scenario regarding Alpha Commercial Bank and answer the question that follows:

- (B) I, II, and IV
- (C) II, III, and IV
- (D) I, III, and IV

May/June 2009

13. Under Listing Obligations and Disclosure Requirements, events that need to be disclosed are broadly categorized into Para A and Para B. What distinguishes events under Para A from events under Para B?
- (A) Para A events require crossing a financial threshold; Para B has no threshold.
 - (B) Para A events are disclosed without materiality tests; Para B if material.
 - (C) Para A applies only to public sector banks; Para B applies to foreign banks.
 - (D) Para A events are disclosed within 5 days; Para B require 11-day intimation.

Oct/Nov 2024

14. Consider the following statements regarding specific disclosures for banks:
- I. For Intra Group Exposures, banks should disclose the Total amount of top 20 intra group exposures.
 - II. For Intra Group Exposures, banks should disclose the details of breach of limits on intra group exposures and regulatory action thereon.
 - III. For Liquidity Coverage Ratio (LCR), banks are required to disclose information covering only the last quarter of the relevant financial year.
 - IV. Banks should provide sufficient qualitative discussion around the LCR to facilitate understanding of the results.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III
 - (B) I, II, and IV
 - (C) II, III, and IV
 - (D) I, III, and IV

May/June 2020

15. Regarding the assurance over fraud risk controls, which of the following statements is correct?
- (A) Internal audit should actively investigate all identified instances of fraud to determine the exact financial loss.
 - (B) The conduct of the internal audit should be supervised by the External Auditor to

ensure absolute objectivity.

- (C) The risk of fraud should only be evaluated in branches identified as high-risk by the external regulator.
- (D) Internal auditors should not investigate fraud unless they have the specific experience and expertise required.

Oct/Nov 2015

16. Consider the following events regarding mandatory disclosure without applying any test of materiality (Para A):
- I. Fraud/Defaults by promoter or key managerial personnel.
 - II. Change in directors, key managerial personnel, Auditor and Compliance officer.
 - III. Awarding, bagging/receiving, amendment or termination of awarded/bagged orders/contracts not in the normal course of business.
 - IV. One time settlement (OTS) with a Bank.
- Which of the above statement(s) is/are correct?
- (A) I, II, and IV
 - (B) I, III, and IV
 - (C) II, III, and IV
 - (D) I, II, and III

May/June 2013

17. Concerning information to be displayed on the website by a listed entity, which of the following statements is correct regarding the updating of information?
- (A) The listed entity shall update the required information on its website within 5 days of any change taking place.
 - (B) The listed entity shall update the required information on its website within 2 days of any change taking place.
 - (C) The listed entity must update the information at the end of every quarter.
 - (D) The listed entity is only required to update the website annually upon publication of the Annual Report.

Oct/Nov 2021

18. Evaluate the following principles relevant to the internal audit function:
- I. Every activity and every entity of the banking group should fall within the overall scope of the internal audit function.
 - II. Banks should have a permanent internal

- (A) Significant Account Policies — Schedule 18
- (B) Transfers to Depositor Education and Awareness Fund (DEAF) — Schedule 12
- (C) Notes to Accounts — Schedule 17
- (D) Unreconciled Nostro balances — Schedule 9

Oct/Nov 2010

40. Read the following scenario regarding Gamma Bank and answer the question that follows:
Gamma Bank needs to report its segments accurately. For Segment Reporting under Accounting Standard 17, which of the following represents the correct format Gamma Bank should adopt?
- (A) Business segment as primary and geographical segment as secondary
 - (B) Geographical segment as primary and business segment as secondary
 - (C) Domestic segment as primary and Treasury segment as secondary
 - (D) Retail banking as primary and Wholesale banking as secondary

May/June 2007

41. Which of the following pairs of Accounting Standards and their respective subjects is incorrectly matched?
- (A) AS 17 — Accounting for Investments in Associates
 - (B) AS 5 — Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
 - (C) AS 15 — Employee Benefits
 - (D) AS 21 — Consolidated Financial Statements

Oct/Nov 2018

42. The Institute of Internal Auditors defines Risk Based Internal Auditing (RBIA) as a methodology that links internal auditing to which of the following?
- (A) An organisation's compliance monitoring processes
 - (B) An organisation's overall risk management framework
 - (C) An organisation's statutory audit reporting structure
 - (D) An organisation's capital adequacy assessment framework

May/June 2023

43. Consider the following statements regarding the Audit Committee of the Board (ACB):
- I. The ACB shall meet at least once in a quarter and at such other times as the Board of Directors may by resolution require.
 - II. A member of the ACB who votes against a resolution that is carried by a majority vote shall provide a written statement to the Board of Directors explaining the reasons for that dissent.

Which of the above statement(s) is/are correct?

- (A) Only I
- (B) Only II
- (C) Both I and II
- (D) Neither I nor II

Oct/Nov 2016

44. Which of the following accurately defines the Provision Coverage Ratio (PCR) that must be disclosed in the Notes to Accounts of a bank?
- (A) The ratio of provision for NPA to total assets held by the bank
 - (B) The ratio of gross non-performing assets to total bank advances
 - (C) The ratio of provision for NPA to gross non-performing assets
 - (D) The ratio of provision for NPA to total equity and reserves

May/June 2011

45. Consider the following statements regarding Unhedged Foreign Currency Exposure:
- I. Banks should disclose their policies to manage currency induced credit risk as a part of financial statements certified by statutory auditors.
 - II. Banks are exempted from disclosing the incremental provisioning and capital held by them towards this risk.

Which of the above statement(s) is/are correct?

- (A) Only I
- (B) Only II
- (C) Both I and II
- (D) Neither I nor II

Oct/Nov 2007

46. In order to augment capital, what is the minimum percentage of 'net profit' before

NODIA

Alpha Commercial Bank entered into an agreement with a media company that is not in the normal course of business. How should Alpha Commercial Bank categorize this agreement for disclosure purposes under listing regulations?

- (A) It is an event that should be disclosed only if considered material (Para B).
- (B) It requires disclosure only in the next Annual Report under corporate governance.
- (C) It is an event that must be necessarily disclosed without applying any test of materiality (Para A).
- (D) It is exempt from disclosure due to client confidentiality clauses.

May/June 2012

- 35.** Match the Accounting Standards in List I with their corresponding subjects in List II:

List I: Accounting Standards

- P. Accounting Standard 9
- Q. Accounting Standard 18
- R. Accounting Standard 22
- S. Accounting Standard 25

List II: Subjects

- 1. Interim Financial Reporting
- 2. Accounting for Taxes on Income
- 3. Revenue Recognition
- 4. Related Party Disclosures

- (A) P-3, Q-4, R-2, S-1
- (B) P-1, Q-2, R-4, S-3
- (C) P-2, Q-3, R-1, S-4
- (D) P-4, Q-1, R-3, S-2

Oct/Nov 2014

- 36.** Read the following scenario regarding Sigma Bank and answer the question that follows:

Sigma Bank (a commercial bank, not an RRB or LAB) has concluded its financial year with a substantial net profit. During the year, the bank detected a large fraud in its lending division. The management wants to appropriate funds to the Statutory Reserve and handle the fraud provision without heavily impacting a single quarter's financials. They also consider drawing down from the Statutory Reserve to pay exceptional dividends. What is the minimum requirement for Sigma Bank to transfer to the reserve fund to augment capital before appropriations?

- (A) Not less than 15 per cent of the net profit
- (B) Not less than 20 per cent of the net profit
- (C) Not less than 25 per cent of the net profit
- (D) Not less than 30 per cent of the net profit

May/June 2019

- 37.** Match the types of outstanding entries in List I with their corresponding regulatory treatment or duration in List II:

List I: Outstanding Entries

- P. Inter-branch credit entries > 5 years
- Q. Nostro unreconciled debit entries > 2 years
- R. Nostro unreconciled credit entries > 3 years
- S. Blocked Account balance (credit entries)

List II: Regulatory Treatment

- 1. Make 100 per cent provision
- 2. Transferred to a Blocked Account and shown as outstanding liabilities
- 3. Reckoned as a liability for the purpose of CRR/SLR
- 4. Transferred to a separate Blocked Account under 'Other Liabilities and Provisions - Others'

- (A) P-4, Q-1, R-2, S-3
- (B) P-1, Q-2, R-3, S-4
- (C) P-3, Q-4, R-1, S-2
- (D) P-2, Q-3, R-4, S-1

Oct/Nov 2006

- 38.** Read the following scenario regarding Sigma Bank and answer the question that follows:

Sigma Bank is considering a draw down from its Statutory Reserve to pay dividends. What is the regulatory requirement for this action?

- (A) The bank can draw down freely as long as the Board approves via a two-thirds majority.
- (B) The bank must only inform the stock exchanges as a Para A material event.
- (C) The bank must take prior approval from the regulator before any appropriation is made from the Statutory Reserve.
- (D) The bank needs approval solely from the Audit Committee of the Board.

May/June 2021

- 39.** Which of the following pairs correctly matches the financial statement item with its respective Schedule as advised for uniformity in bank financial statements?

- (C) I and III
- (D) I, II, and III

Oct/Nov 2005

- 52.** Under Accounting Standard 23, a bank acquires more than 20% of voting power in a borrower entity in satisfaction of its advances. The rights exercised by the bank are protective in nature and not participative. How should this investment be treated?
- (A) It must be treated as an investment in an associate based on the 20% threshold.
 - (B) It should be consolidated entirely as a subsidiary acquired in debt satisfaction.
 - (C) It must be treated as a joint venture under the provisions of Accounting Standard 21.
 - (D) It is not an associate, as the test involves intent to exercise influence.

May/June 2017

- 53.** Consider the following statements on assurance over fraud risk controls:
- I. Significant funds are lost to frauds often because of poorly designed controls.
 - II. The risk of fraud should be excluded from the audit plan to avoid tipping off perpetrators.
 - III. Internal audit should have sufficient knowledge of fraud to identify red flags indicating fraud may have been committed.
 - IV. Conflict of interest should be avoided, as internal audit is also tasked with evaluation of fraud control framework.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III
 - (B) I, III, and IV
 - (C) II, III, and IV
 - (D) I, II, and IV

Oct/Nov 2019

- 54.** Which of the following statements correctly describes a mandate for the Audit Committee of the Board (ACB) in a bank?
- (A) The ACB must be chaired by the chair of the board to ensure alignment with corporate governance.
 - (B) The ACB should review the annual financial statement of the bank exclusively without the Management Letter.
 - (C) A resolution of the ACB shall be passed by a majority of the members present and

voting.

- (D) The ACB is responsible for performing the concurrent audit of the bank's branches.

May/June 2009

- 55.** Under listing regulations, a listed entity shall disseminate information on its website. Consider the following details regarding familiarisation programmes for independent directors:
- I. Number of programmes attended by independent directors.
 - II. Number of hours spent by independent directors in such programmes.
 - III. Detailed transcripts of every lecture delivered during the programme.
 - IV. The cumulative basis till date for the number of programmes and hours spent.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III
 - (B) I, II, and IV
 - (C) II, III, and IV
 - (D) I, III, and IV

Oct/Nov 2024

- 56.** Which of the following is the correct practice for banks regarding the disclosure of penalties imposed by the regulator?
- (A) The details of the levy of penalty on a bank should be placed in the public domain and disclosed in the "Notes to Accounts" to the Balance Sheet.
 - (B) Penalties must be disclosed strictly in the Board of Directors' confidential internal report and not to the public.
 - (C) Penalties are disclosed only if they exceed 5% of the bank's net profit for the financial year under review.
 - (D) Penalties imposed by the regulator are not required to be disclosed if an appeal is pending before an authority.

May/June 2020

- 57.** The Audit Committee of the Board (ACB) has several responsibilities. Consider the following statements:
- I. It is responsible for framing policy on internal audit and financial reporting.
 - II. It formulates and recommends to the board the appointment, remuneration and dismissal of external auditors.

NODIA

- III. It must review the internal audit reports and reports on frauds and cash shortages placed before it.
- IV. It retains the right, upon majority vote, to retain expert legal, accounting and auditing advisers at the expense of the Bank.
- V. It meets at least twice every month to review the day-to-day operations of the branch offices.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV
- (B) I, II, IV, and V
- (C) II, III, IV, and V
- (D) I, III, IV, and V

Oct/Nov 2015

58. Which of the following statements regarding the Offsite Audit vertical within the Internal Audit Department is incorrect?
- (A) The Offsite Audit Team will be provided with read-only access to the MIS databases.
 - (B) The Offsite Audit Team is responsible for investigating frauds bypassing the field branch banking auditors.
 - (C) The tasks for the offsite monitoring team can be added or modified based on feedback from field auditors.
 - (D) The Offsite Audit Team will support on-field branch banking auditors with necessary reports and inputs.

May/June 2013

59. Consider the following statements regarding Accounting Standards applicability to banks:
- I. AS 5 requires disclosure of the impact of prior period items on the current year's profit and loss.
 - II. AS 9 requires disclosure of circumstances where revenue recognition is postponed pending resolution of significant uncertainties.
 - III. AS 17 requires banks to adopt business segment as the primary reporting format and geographical segment as secondary.
 - IV. AS 21 guides the disclosures in the 'Notes to Accounts' to the Consolidated Financial Statements.
 - V. AS 22 deals with Accounting for Investments in Associates in Consolidated

Financial Statements.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV
- (B) I, II, III, and V
- (C) II, III, IV, and V
- (D) I, III, IV, and V

Oct/Nov 2021

60. Which of the following statements regarding the treatment of unreconciled entries in Nostro accounts is incorrect?
- (A) Unreconciled credit entries for more than three years shall be moved to a Blocked Account.
 - (B) The balance in the Blocked Account for Nostro credit entries is reckoned for CRR/SLR.
 - (C) Unreconciled transitory credit balances shall be moved to profit and loss immediately.
 - (D) Banks shall make a 100 per cent provision for unreconciled debit entries over two years.

May/June 2024

61. Consider the following statements regarding profit appropriations and reserves in banks:
- I. Banks are required to transfer a sum equivalent to not less than 20 per cent of profits to the Reserve Fund.
 - II. Commercial Banks (excluding Local Area Banks and RRBs) shall transfer not less than 25 per cent of net profit to the Statutory Reserve.
 - III. Banks can draw down from the Statutory Reserve at their own discretion without any prior approval.
 - IV. The share premium account cannot be utilised for writing off expenses relating to the issue of debt instruments.
 - V. Provisioning for frauds can be made over a period not exceeding four quarters.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and V
- (B) I, II, IV, and V
- (C) II, III, IV, and V
- (D) I, III, IV, and V

Oct/Nov 2008

- 62.** According to Listing Regulations, all of the following events must be necessarily disclosed without applying any test of materiality (Para A), EXCEPT:
- (A) Issuance or forfeiture of securities
 - (B) Revision in Rating(s)
 - (C) Capacity addition or product launch
 - (D) Reference to BIFR and winding-up petition filed by any party

May/June 2006

- 63.** The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): In order to augment capital, Commercial Banks (excluding LABs and RRBs) shall transfer not less than 25 per cent of the 'net profit' before appropriations to the Statutory Reserve.

Reason (R): Banking regulations mandate that all types of cooperative banks must also transfer exactly 25 per cent to the Statutory Reserve.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2017

- 64.** When leveraging the existing risk management framework for test checking compliance on a random basis, several parameters are considered for selecting the sample size. Which of the following is NOT one of those specified parameters?
- (A) Based on regulatory focus
 - (B) Whether the activity has inherent high risk
 - (C) Whether any major breaches are reported in the past
 - (D) The total number of employees in the branch

May/June 2018

- 65.** The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): Any adjustment from the Blocked Account containing segregated inter-branch credit entries should be permitted only with the authorisation of two officials.

Reason (R): The balance in the Blocked Account is excluded from being reckoned as a liability for the purpose of the maintenance of Cash Reserve Ratio (CRR).

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2013

- 66.** A listed entity shall disseminate various pieces of information on its website. Which of the following is NOT explicitly required to be disseminated on the website under standard listing regulations?

- (A) Composition of various committees of board of directors
- (B) Policy on dealing with related party transactions
- (C) Personal residential addresses of all board members
- (D) Details of familiarisation programmes imparted to independent directors

May/June 2014

- 67.** Read the following scenario regarding Omega Bank and answer the question that follows:

Omega Bank is restructuring its internal audit department to align with regulatory guidelines. The Board decides that the Head of Internal Audit (HIA), Mr. Sharma, will report directly to the Chief Financial Officer (CFO) to ensure tight integration with financial controls. Additionally, the Board links Mr. Sharma's remuneration directly to the profitability of the retail business line to motivate high

performance.

Based on the guidelines for the Internal Audit Function, what is the primary compliance breach in Omega Bank's restructuring of the HIA's reporting line?

- (A) HIA reports to the ACB, CEO, or WTD, with no relationship to business verticals.
- (B) HIA should report exclusively to the external statutory auditors, not the CFO.
- (C) HIA must report to the Chief Risk Officer to consolidate the risk framework.
- (D) HIA is required to report to the branch managers of the highest performing units.

Oct/Nov 2012

68. If the internal audit reveals that bank management has accepted a level of risk that may be unacceptable to the bank, what is the most appropriate course of action for the Head of Internal Audit (HIA)?

- (A) Immediately report the matter to the public domain through a formal press release.
- (B) Unilaterally downgrade the bank's internal risk rating without prior consultation.
- (C) Withhold the internal audit report until management reduces the current risk level.
- (D) Discuss with senior management and escalate to the Board/Committee if not resolved.

May/June 2010

69. Read the following scenario regarding Omega Bank and answer the question that follows:

Omega Bank is restructuring its internal audit department to align with regulatory guidelines. To ensure the independence of the internal audit function in Omega Bank, how frequently should the Audit Committee of the Board (ACB) meet with the Head of Internal Audit without the presence of senior management?

- (A) At least once a month
- (B) At least once in a quarter
- (C) At least once every half-year
- (D) At least once a year

Oct/Nov 2020

70. In the context of the "Lines of Defence Against Risks", how is the internal audit function best characterized?

- (A) It is the first line of defence, primarily responsible for taking risks in business

functions.

- (B) It is the second line of defence, providing risk oversight and compliance.
- (C) It is the third line of defence, acting as risk assurance.
- (D) It is an external line of defence managed solely by the regulatory supervisor.

May/June 2022

71. Read the following scenario regarding Zenith Bank and answer the question that follows:

Zenith Bank identifies unreconciled debit entries in its Nostro accounts that have been outstanding for two and a half years. What action is mandated for Zenith Bank regarding these entries?

- (A) The bank must write them off against the share premium account.
- (B) The bank must make a 100 per cent provision in respect of these entries.
- (C) The bank should transfer them to a 'Blocked Account' and reckon them as a liability.
- (D) The bank must report them as Contingent Liabilities under Schedule 12.

Oct/Nov 2023

72. Identify the correct chronological sequence for reporting breaches/non-compliances as per a standard compliance monitoring framework:

- I. Branches report the breach in a structured format to RO/ZO.
 - II. RO/ZO reports to the Compliance department at Central Office.
 - III. RO/ZO makes a copy of the certificate available to the Risk officer.
 - IV. The Risk officer identifies branches on a random basis for independent compliance testing.
- (A) I, II, III, IV
 - (B) I, III, II, IV
 - (C) IV, I, II, III
 - (D) II, I, IV, III

May/June 2016

73. Read the following scenario regarding Alpha Commercial Bank and answer the question that follows:

Alpha Commercial Bank, a listed entity, recently held a board meeting where two major decisions were made: (1) A proposal for voluntary delisting from a regional stock exchange, and

(2) *An agreement with a media company that is not in the normal course of business. Later, a natural calamity disrupted operations at one of its major regional processing centres.*

Regarding the proposal for voluntary delisting, what are the prior intimation requirements Alpha Commercial Bank must fulfil?

- (A) It must intimate the stock exchange at least five days in advance, excluding the intimation date and meeting date.
- (B) It must intimate the stock exchange at least eleven working days before the proposal is placed.
- (C) It must give prior intimation at least two working days in advance, excluding the date of intimation and meeting date.
- (D) Voluntary delisting proposals do not require prior intimation.

Oct/Nov 2009

74. Match the Principles Relevant to the Internal Audit Function in List I with their corresponding core focus in List II:

List I: Principles Relevant to the Internal Audit Function

- P. Principle 2
- Q. Principle 3
- R. Principle 4
- S. Principle 5

List II: Core Focus

- 1. Integrity
- 2. Independence
- 3. Internal audit policy
- 4. Professional competence

- (A) P-2, Q-4, R-1, S-3
- (B) P-1, Q-3, R-2, S-4
- (C) P-3, Q-1, R-4, S-2
- (D) P-4, Q-2, R-3, S-1

May/June 2005

75. Read the following scenario regarding Alpha Commercial Bank and answer the question that follows:

Operations at Alpha Commercial Bank were disrupted due to a natural calamity at a regional processing centre.

Under which category of listing regulations does this event fall for disclosure?

- (A) It should be disclosed by the listed entity, if considered material (Para B).
- (B) It must be necessarily disclosed without

- applying any test of materiality (Para A).
- (C) It requires prior intimation of at least eleven working days.
- (D) It requires disclosure only if the disruption lasts more than 30 consecutive days.

Oct/Nov 2025

76. Match the Regulation Numbers in List I with their Nature of Disclosure/Information in List II:

List I: Regulation Numbers

- P. Regulation 31
- Q. Regulation 33
- R. Regulation 34
- S. Regulation 36

List II: Nature of Disclosure

- 1. Annual Report
- 2. Documents and Information to Shareholders
- 3. Holding of specified securities and shareholding pattern
- 4. Financial Results
- (A) P-3, Q-4, R-1, S-2
- (B) P-4, Q-1, R-2, S-3
- (C) P-2, Q-3, R-4, S-1
- (D) P-1, Q-2, R-3, S-4

May/June 2012

77. Read the following scenario regarding Sigma Bank and answer the question that follows:

Sigma Bank detected a large fraud during the financial year.

How can Sigma Bank manage the provisioning for the detected fraud according to extant guidelines?

- (A) Bank must provision the entire amount in the exact month the fraud is detected.
- (B) Bank may provision for the fraud over a period not exceeding four quarters.
- (C) Bank can defer the entire provision amount to the following financial year.
- (D) Bank can write off the entire fraud amount against the share premium account.

Oct/Nov 2014

78. Match the events under Listing Regulations in List I with their respective categorisation in List II:

List I: Events

- P. Issuance or forfeiture of securities
- Q. Disruption of operations due to natural calamity

- R. Revision in Rating(s)
- S. Capacity addition or product launch

List II: Categorisation

1. Para A (Necessarily disclosed without test of materiality)
 2. Para B (Disclosed if considered material)
 3. Para A (Necessarily disclosed without test of materiality)
 4. Para B (Disclosed if considered material)
- (A) P-1, Q-2, R-3, S-4
 (B) P-2, Q-1, R-4, S-3
 (C) P-3, Q-4, R-1, S-2
 (D) P-4, Q-3, R-2, S-1

May/June 2019

- 79.** Read the following scenario regarding Gamma Bank and answer the question that follows:

Gamma Bank operates across India, holds a 100% stake in an insurance subsidiary, and acts as the sponsor bank for Delta Regional Rural Bank (RRB). Gamma Bank is preparing its annual financial statements and its Consolidated Financial Statements (CFS).

In preparing the CFS, how should Gamma Bank treat Delta RRB?

- (A) As a wholly-owned subsidiary
- (B) As a joint venture
- (C) As a non-consolidated external entity
- (D) As an associate

Oct/Nov 2006

- 80.** Which of the following pairs correctly represents the geographic segments for disclosure as required under Accounting Standard 17?

- (A) Urban and Rural
- (B) Treasury and Retail Banking
- (C) Corporate and Retail
- (D) Domestic and International

ANSWERS

1. (D) Accounting Standard 22
Accounting Standard 22 governs the accounting for taxes on income, focusing on timing differences between accounting income and taxable income. This standard mandates recognition of deferred tax assets and deferred tax liabilities to ensure financial statements accurately reflect future tax consequences. It provides specific guidance on determining tax expenses or savings for the reporting period, ensuring transparency in bank disclosures.
2. (C) Regulation 29 — Draft Scheme of Arrangement
Under SEBI Listing Obligations and Disclosure Requirements, Regulation 29 pertains to prior intimations regarding board meetings for specific proposals like financial results or dividends. A draft scheme of arrangement is typically associated with different regulatory filings. Regulations 46, 47, and 30 correctly relate to website displays, newspaper publications, and disclosure of material events or information respectively, maintaining market transparency.
3. (A) Commercial Banks and Urban Co-operative Banks
In the regulatory framework for financial statement presentation and disclosure, the term 'banks' specifically encompasses commercial banks and urban co-operative banks. This collective classification ensures uniform accounting practices and transparency across these banking entities. It excludes other financial institutions like primary agricultural credit societies or non-banking financial companies, which are governed by distinct and separate sets of reporting requirements.
4. (A) Only I
Consolidated Financial Statements for banking groups include the consolidated balance sheet, profit and loss statement, accounting policies, and notes. While sponsor banks consolidate their holdings, a Regional Rural Bank is treated as an associate rather than a wholly-owned subsidiary. This treatment is due to the specific ownership structure involving the central government, state government, and the sponsor bank itself.
5. (D) Business segment as primary and geographical segment as secondary
Banks complying with Accounting Standard 17 are required to follow a specific reporting format for segment disclosure. The business segment serves as the primary reporting format, categorizing operations into areas like treasury, corporate, and retail banking. The geographical segment is treated as the secondary format, focusing on the location of operations, typically distinguishing between domestic and international business activities.
6. (B) Only II
Guidelines for Credit Default Swaps require banks to provide detailed disclosures in their Notes to Accounts. When a bank utilizes a proprietary model for pricing, it must explain the rationale behind choosing that specific model over others. This transparency ensures that stakeholders understand the valuation methodology and risks involved, whereas simply disclosing a standard model price without context is insufficient.
7. (B) At least five working days, excluding the date of the intimation and date of the meeting
Listing regulations mandate that a listed entity must provide prior intimation to the stock exchange regarding board meetings where financial results will be considered. This notice must be given at least five working days in advance. The calculation of this period excludes both the date of the intimation and the date of the meeting, ensuring sufficient notice for investors.
8. (B) II and III
Internal audit functions in banks are often underutilised when critical risk areas are not consistently prioritised in the audit plan. To maintain high standards, the internal audit framework requires periodic external validation.

- 25. (A) The External Statutory Auditor**
In a bank's compliance monitoring framework, branches report breaches to the Regional or Zonal Office. This office then forwards the information to the Central Office's Compliance department. Copies are shared with the relevant functional department, the Functional General Manager's Office, and the Risk officer. The external statutory auditor is not a standard recipient in this internal reporting flow.
- 26. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).**
Listed entities must update their websites within two working days of any change to ensure timely dissemination of information. This requirement aligns with the principles of corporate disclosure, which mandate that all investors should have equal and cost-efficient access to relevant data. Rapid updates prevent information asymmetry and maintain market integrity by keeping all stakeholders informed of significant corporate developments.
- 27. (A) HIA reports to the ACB, CEO, or WTD, without business vertical relationships.**
To ensure the independence of the internal audit function, the Head of Internal Audit should report directly to the Audit Committee of the Board, the Managing Director and CEO, or a Whole-Time Director. This reporting structure must be free from any relationships with business verticals. Reporting to officers like the CFO or Chief Risk Officer could create conflicts of interest.
- 28. (C) Linking pay to business performance creates conflicts and compromises objectivity.**
Linking the remuneration of the Head of Internal Audit to the financial performance of a specific business line violates the core principles of independence and objectivity. Such an arrangement creates a conflict of interest, as the auditor might be hesitant to report issues that could negatively impact the profitability of that division. Remuneration should be structured to support impartial auditing.
- 29. (B) Company law safeguards the interest of the stockholder, while banking legislation protects the depositor.**
Company law is fundamentally designed to safeguard the interests of stockholders and ensure proper corporate governance for owners. In contrast, banking legislation places a primary emphasis on protecting the interests of depositors. Given that banks operate with public money, the regulatory framework prioritizes the safety and liquidity of deposits over the interests of the bank's equity shareholders.
- 30. (C) Segregate and transfer them to a separate 'Blocked Account' under 'Other Liabilities and Provisions - Others'.**
Banks must segregate inter-branch credit entries that remain unreconciled for more than five years. These entries are transferred to a separate 'Blocked Account' which is reported under 'Other Liabilities and Provisions - Others'. This accounting treatment ensures that long-outstanding items are clearly identified and controlled, preventing them from being buried in active inter-branch accounts or prematurely taken into income.
- 31. (D) Provide a written statement to the Board of Directors explaining the dissent reasons.**
When a resolution is passed by a majority in an Audit Committee meeting, any member who voted against it is required to provide a written statement to the Board of Directors. This statement must explain the specific reasons for their dissent. This procedure ensures that the board is fully aware of any significant disagreements or concerns regarding the committee's decisions.
- 32. (D) Transfer to a Blocked Account as liabilities reckoned for CRR/SLR purposes.**
Unreconciled credit entries in Nostro accounts that have been outstanding for more than three years must be moved to a Blocked Account. These balances are treated as liabilities and must be reckoned for the purpose of maintaining the Cash Reserve Ratio and Statutory Liquidity Ratio. This ensures that the bank maintains adequate liquid assets against these potential obligations to third parties.

- 17.** (B) The listed entity shall update the required information on its website within 2 days of any change taking place.
A listed entity is required to maintain an updated website for investor information. Whenever a change occurs in the information that is mandated to be displayed, the entity must update its website within two working days. This rule ensures that investors have access to timely, accurate, and relevant data, reflecting the current state and governance of the organization.
- 18.** (B) I, II, IV, and V
The internal audit function must be permanent and cover every activity within the banking group. The Head of Internal Audit is responsible for adhering to professional standards and ethics. While experts may be hired for specific tasks, the board of directors retains ultimate responsibility. Crucially, the Audit Committee of the Board, not the Risk Management Committee, oversees this function.
- 19.** (A) Boards relinquish ultimate responsibility when hiring external experts for audit.
Even when a bank hires external experts to perform specialized audit tasks, the board of directors and senior management do not relinquish their ultimate responsibility for the internal audit function. The function must remain independent of audited activities and maintain a quality assurance program. Every activity of the banking group must remain within the scope of the internal audit.
- 20.** (C) I, II, III, and IV
Para B events require a materiality assessment before disclosure. These include the commencement of commercial production, capacity additions, product launches, and disruptions caused by natural calamities. Providing guarantees or becoming a surety for third parties also falls under this category. Conversely, certain events like corporate debt restructuring are considered inherently material and fall under the mandatory Para A list.
- 21.** (D) Prior intimation is not required for a board meeting proposal for the declaration of bonus securities, if it is not on the agenda papers.
Prior intimation to the stock exchange is mandatory for specific board meeting proposals, including the declaration of bonus securities. Even if such an item is not originally on the agenda papers but is intended to be considered, the requirement for notice remains. Other rules, such as the eleven working days' notice for altering interest payment dates, are strictly enforced by authorities.
- 22.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Internal auditors are tasked with evaluating the effectiveness of the fraud control framework. To maintain objectivity and avoid conflicts of interest, they should generally refrain from investigating frauds unless they have specific expertise. Investigating the same systems they are supposed to audit independently could compromise their professional stance. Therefore, specialized investigators are usually preferred for handling actual fraud cases.
- 23.** (B) Information Technology Services
For the purpose of segment reporting under Accounting Standard 17, banks are required to categorize their business into standard segments. These typically include treasury, retail banking, and corporate or wholesale banking. Information technology services, while a critical internal function, are not recognized as a primary business segment for external financial reporting purposes under the specific guidelines issued for banks.
- 24.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Under Accounting Standard 23, an investment is classified as an associate based on the investor's ability to exercise significant influence. If a bank acquires more than twenty percent voting power purely as a protective measure to recover advances, it does not necessarily constitute an associate. The intent to exercise influence is the determining factor, rather than ownership percentage.

Effective risk rating of audit areas should ideally incorporate both leading and lagging indicators, though many institutions currently rely too heavily on historical or lagging data.

9. (C) Three years

Regulatory guidelines specify that the Head of Internal Audit should ideally have a minimum tenor of three years. This requirement is designed to ensure continuity, stability, and independence within the internal audit function. Exceptions are made for entities where internal audit is a specialized function managed by career auditors, but for most banks, this three-year period is the standard.

10. (A) I and II

Banks are required to provide specific disclosures in their Notes to Accounts to enhance transparency. These include details regarding fees or brokerage earned from insurance and bancassurance businesses. Additionally, they must disclose the value and share of the top twenty deposits, advances, and non-performing assets. Personal investment portfolios of directors are generally not part of these mandatory financial disclosures.

11. (A) To meet incremental share issue expenses directly attributable to the transaction.

The share premium account can be utilised for specific purposes under applicable laws without needing prior regulatory approval. One such permitted use is meeting incremental share issue expenses that are directly attributable to the transaction. Other uses, such as writing off preliminary expenses or debt instrument costs, typically require compliance with specific legal frameworks and may require different levels of authorization.

12. (B) I, II, and IV

The Head of Internal Audit must be a senior executive capable of independent judgment. In foreign bank branches, the HIA reports to the head office audit function. To maintain independence, staff remuneration must not be linked to the performance of business lines they audit. Furthermore, the Audit Committee must meet the HIA quarterly without senior management being present.

13. (B) Para A events are disclosed without materiality tests; Para B if material.

SEBI Listing Obligations and Disclosure Requirements categorize reportable events into two groups. Para A events are deemed inherently significant and must be disclosed to stock exchanges without applying any test of materiality. In contrast, events listed under Para B require the application of materiality guidelines determined by the entity's board before a disclosure is deemed necessary for the public.

14. (B) I, II, and IV

Regulatory requirements for banks involve disclosing the total amount of the top twenty intra-group exposures and any breaches of limits. Regarding the Liquidity Coverage Ratio, banks must provide qualitative discussions to clarify results and must disclose data covering more than just the final quarter. These disclosures aim to provide a comprehensive view of the bank's liquidity and inter-connectedness.

15. (D) Internal auditors should not investigate fraud unless they have the specific experience and expertise required.

While internal auditors evaluate the fraud control framework, they should generally not investigate fraud cases unless they possess specialized experience and expertise. This avoids conflicts of interest and ensures that investigations are handled by qualified professionals. Internal audit's primary role is to ensure that robust controls are in place and to identify red flags through regular monitoring.

16. (A) I, II, and IV

Under listing regulations, certain events must be disclosed regardless of their financial impact. These include any fraud or defaults committed by promoters or key managerial personnel and changes in directors or auditors. One-time settlements with banks also fall into this category. Contracts not in the normal course of business generally require a materiality test before disclosure is deemed mandatory.

33. (A) II, I, III

Prior intimation requirements vary based on the nature of the board's agenda. Proposals for buybacks or delisting require at least two working days' notice. Consideration of financial results requires a minimum of five working days. The longest notice period of eleven working days is required for proposals involving alterations in the form or nature of listed securities or interest payment dates.

34. (C) It is an event that must be necessarily disclosed without applying any test of materiality (Para A).

Under SEBI Listing Regulations, any agreement entered into by a listed entity that is not in the normal course of business must be disclosed to the stock exchanges. This type of event is categorized under Para A, meaning it is considered inherently significant and requires mandatory disclosure without the application of any materiality thresholds or tests by the bank's management.

35. (A) P-3, Q-4, R-2, S-1

Accounting Standard 9 deals with revenue recognition, outlining when income should be recorded. AS 18 focuses on related party disclosures to ensure transparency in transactions with affiliated entities. AS 22 covers accounting for taxes on income, including deferred taxes. Finally, AS 25 provides the framework for interim financial reporting, which is essential for quarterly and half-yearly disclosures by banks.

36. (C) Not less than 25 per cent of the net profit Commercial banks, excluding Local Area Banks and Regional Rural Banks, are required to transfer a minimum of twenty-five per cent of their net profit to the Statutory Reserve before making any other appropriations. This regulatory mandate is intended to strengthen the bank's capital base and provide a cushion against potential losses, ensuring long-term financial stability and depositor protection.**37. (A) P-4, Q-1, R-2, S-3**

Inter-branch credit entries older than five years are moved to a Blocked Account under other liabilities. Nostro unreconciled debit entries exceeding two years require a full hundred per

cent provision. Nostro credit entries older than three years are also transferred to a Blocked Account. The balances in these Blocked Accounts for Nostro credits are specifically reckoned as liabilities for CRR/SLR.

38. (C) The bank must take prior approval from the regulator before any appropriation is made from the Statutory Reserve.

Banks are prohibited from making any appropriations from the Statutory Reserve, including draw downs to pay dividends, without obtaining prior approval from the regulator. This reserve is a key component of the bank's capital adequacy, and any reduction in its balance is strictly monitored to ensure that the bank's financial health and regulatory capital requirements are not compromised by such actions.

39. (B) Transfers to Depositor Education and Awareness Fund (DEAF) — Schedule 12

For uniformity in financial statements, specific items are mapped to designated schedules. Transfers to the Depositor Education and Awareness Fund are recorded under Schedule 12, which covers contingent liabilities and other items. In contrast, significant accounting policies are typically found in Schedule 17, and the notes to accounts are presented in Schedule 18, ensuring a standardized format.

40. (A) Business segment as primary and geographical segment as secondary

In accordance with Accounting Standard 17 guidelines for banks, the primary reporting format must be the business segment. This involves disclosing financial information for divisions like treasury and retail banking. The secondary reporting format is the geographical segment, which focuses on the location of operations, typically distinguishing between domestic and international business to provide a comprehensive view of risks.

41. (A) AS 17 — Accounting for Investments in Associates

Accounting Standard 17 is dedicated to segment reporting, requiring entities to disclose financial information about different types of products and services and their geographical areas. The standard for accounting for investments in

associates in consolidated financial statements is actually AS 23. Other standards like AS 5, AS 15, and AS 21 are correctly matched to profit items, employee benefits, and consolidated statements.

42. (B) An organisation's overall risk management framework

Risk-Based Internal Auditing is a methodology that integrates the internal audit function with an organization's overall risk management framework. This approach allows internal audit to provide assurance to the board and management that risk management processes are managing risks effectively, in relation to the risk appetite. It shifts the focus from transaction-based auditing to strategic, risk-focused evaluation.

43. (C) Both I and II

The Audit Committee of the Board is required to meet at least once every quarter to review financial performance and internal controls. To ensure transparency and accountability, any member who dissents from a majority decision is mandated to provide a written statement to the Board of Directors explaining their reasons. These rules strengthen the governance and oversight roles of the committee.

44. (C) The ratio of provision for NPA to gross non-performing assets

The Provision Coverage Ratio is a critical metric used to assess a bank's ability to absorb losses from bad loans. It is calculated as the ratio of the total provisions held for non-performing assets to the total gross non-performing assets of the bank. A higher ratio indicates that the bank is better prepared to handle potential defaults within its loan portfolio.

45. (A) Only I

Banks are required to disclose their policies for managing currency-induced credit risk as part of their audited financial statements. This includes explaining how they monitor and mitigate risks from clients with unhedged foreign currency exposures. However, statement two is incorrect because banks must also disclose the incremental provisioning and the additional capital they hold specifically to cover this risk.

46. (C) Not less than 25 per cent

To ensure robust capital augmentation, commercial banks (excluding Regional Rural Banks and Local Area Banks) are mandated to transfer at least twenty-five per cent of their net profit to the Statutory Reserve fund. This transfer must occur before any dividends are declared or other appropriations are made, serving as a regulatory requirement to build a strong financial foundation.

47. (C) I and III

The scope of an Information System audit is comprehensive, covering the entire lifecycle of information systems from planning and organization to implementation and support. It includes evaluating process effectiveness, input and output controls, and the accomplishment of system goals. Statement two is incorrect because testing the processes for planning and organizing IS activities is a vital part of the audit scope.

48. (D) Five years

Inter-branch accounts often contain unreconciled entries that can pose operational risks. Regulatory guidelines require banks to segregate credit entries that have remained outstanding for more than five years. These entries are then transferred to a separate 'Blocked Account'. This action helps in maintaining a cleaner balance sheet and ensures that long-pending items are subject to stricter oversight and control.

49. (D) I, II, and III

Listed entities must publish specific information in both a national English daily and a local regional daily. This includes notices for board meetings discussing financial results and the results themselves, along with any modified opinions from auditors. Additionally, they must publish statements regarding any deviations or variations in the use of funds, ensuring broad public access to significant financial data.

50. (C) Access for market participants to timely and reliable information to assess risks.

Market discipline, a key pillar of the Basel II framework, relies on the ability of market participants to assess a bank's risk profile accurately. For this mechanism to function

effectively, participants must have access to timely, reliable, and relevant information. Transparency in disclosures allows investors to reward well-managed institutions and penalize those with excessive risk, promoting overall financial stability.

51. (D) I, II, and III

In preparing Consolidated Financial Statements, banks must follow standard definitions for subsidiaries and associates. When a group consists of entities governed by different accounting norms, the dominant activity is determined based on balance sheet size. The accounting norms of the regulator overseeing that dominant activity are then used for consolidating similar transactions, ensuring consistency across the reporting.

52. (D) It is not an associate, as the test involves intent to exercise influence.

Under Accounting Standard 23, an investment is not classified as an associate if the voting power is acquired purely as a protective measure, such as in the satisfaction of a debt. The classification depends on the intent to exercise significant influence rather than the mere percentage of ownership. Since the rights in this scenario are protective, associate status is not triggered.

53. (B) I, III, and IV

Significant losses often stem from poorly designed controls, making fraud risk a critical area for internal audit. Auditors must have enough knowledge to identify red flags and must avoid conflicts of interest when evaluating fraud frameworks. Contrary to statement two, fraud risk must be included in the audit plan to ensure that controls are robust and potential vulnerabilities are addressed.

54. (C) A resolution of the ACB shall be passed by a majority of the members present and voting. Decisions within the Audit Committee of the Board are made through a democratic process where resolutions are passed by a majority of the members present and voting. This ensures that committee actions reflect a consensus or majority view. The committee's role is to oversee financial reporting and audit processes,

including the review of management letters, rather than branch-level inspections.

55. (B) I, II, and IV

Listing regulations require banks to disclose details of familiarisation programmes for independent directors on their websites. This includes the number of programmes attended and the total hours spent, both for the current year and on a cumulative basis. While these participation metrics are mandatory, providing detailed transcripts of lectures is not a requirement, as the focus is on demonstrating engagement.

56. (A) The details of the levy of penalty on a bank should be placed in the public domain and disclosed in the "Notes to Accounts" to the Balance Sheet.

Transparency is a core requirement when a bank faces regulatory penalties. Any penalty imposed by the regulator must be disclosed in the "Notes to Accounts" of the balance sheet and placed in the public domain. This ensures that shareholders, depositors, and other stakeholders are fully informed of any regulatory non-compliance and the resulting financial or reputational impact on the institution.

57. (A) I, II, III, and IV

The Audit Committee is responsible for internal audit policy, financial reporting, and recommending the appointment of external auditors. It must review internal audit reports and has the authority to hire expert advisers at the bank's expense. While it performs critical oversight, it does not meet twice a month for day-to-day branch reviews, as its focus is on high-level governance.

58. (B) The Offsite Audit Team is responsible for investigating frauds bypassing the field branch banking auditors.

The Offsite Audit Team's primary role is to support on-field auditors by providing data analysis and reports from MIS databases. While they can identify anomalies that might suggest fraud, they are not typically responsible for the actual investigation of frauds, which requires specialized field-based forensic skills. Their tasks are dynamic and evolve based on feedback to improve audit efficiency.

IV. The CO has a dotted line direct reporting to the CCO at Head Office.

V. The appraisal of locally appointed COs is finalised exclusively by the local Chief Executive.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV only
- (B) I, III, IV, and V only
- (C) II, III, IV, and V only
- (D) I, II, III, IV, and V

May/June 2013

30. Read the following scenario regarding staff training. Based on standard internal control objectives, answer the question that follows.

The HR department of a bank hires a group of new management trainees. To instil a strong compliance culture, the HR manager wants to align their training with the bank's internal control objectives. Which of the following concepts should the HR manager emphasize to ensure that the trainees understand the importance of separating duties?

- (A) Allowing one trainee to handle both loan authorisation and collateral custody to speed up tasks.
- (B) Training trainees to rely entirely on external auditors to detect any potential operational errors.
- (C) Separating transaction authorisation from asset custody to reduce the opportunity for fraud.
- (D) Encouraging them to bypass computer-programmed controls during high-volume transactional periods.

Oct/Nov 2008

31. Read the following scenario and answer the question that follows.

During a quarterly review, the functional head of the Retail Banking department at the Head Office notices a recurring failure in adhering to KYC documentation norms. According to standard compliance governance structures, what is the immediate responsibility of the functional department regarding this breach?

- (A) Conceal the breach until the internal audit team discovers it during their annual inspection cycle.
- (B) Formulate a new penalty structure

for branch managers and enforce it independently across units.

- (C) Escalate the matter directly to the Regulator without informing the CCO or senior management.
- (D) Promptly report the breach to the Compliance Department for scrutiny and rectification guidance.

May/June 2024

32. Read the following scenario regarding overseas regulations. Based on standard guidelines for overseas establishments, answer the question that follows.

In an overseas branch of a bank, the local Compliance Officer (CO) notices a new host country regulation that is more stringent than the bank's internal compliance policy. How should the Chief Executive at the centre handle this situation?

- (A) Ignore the host country regulation and strictly follow the bank's internal compliance policy.
- (B) Suspend operations until the Head Office revises the entire corporate compliance policy.
- (C) Outsource the compliance monitoring to a local foreign firm immediately.
- (D) Implement the host country's local compliance guidelines since they are more stringent.

Oct/Nov 2017

33. According to guidelines on Disclosure of Divergence, within how many hours of receiving the Final Risk Assessment Report (RAR) must the HO Finance department make necessary disclosures if the divergence exceeds the specified threshold?

- (A) 12 hours
- (B) 24 hours
- (C) 48 hours
- (D) 72 hours

May/June 2006

34. Read the following scenario regarding non-compliance. Based on standard compliance categorisations, answer the question that follows.

A bank employee deliberately withholds vital transaction data from the regulatory reporting team to hide an erroneous high-value trade.

it compromises the independence of the audit function, as the HIA must be able to audit financial functions independently.

- 68.** (D) Discuss with senior management and escalate to the Board/Committee if not resolved.

If the internal audit identifies that management has accepted a level of risk beyond the bank's appetite, the Head of Internal Audit should first discuss the matter with senior management. If the issue remains unresolved and the risk continues to be unacceptable, the HIA is mandated to escalate the matter to the Board of Directors or the Audit Committee to ensure oversight.

- 69.** (B) At least once in a quarter

To maintain the independence of the internal audit function, the Audit Committee of the Board is required to meet with the Head of Internal Audit at least once every quarter. These meetings must occur without the presence of senior management, allowing the HIA to speak freely about any concerns, constraints, or significant findings without fear of influence from management.

- 70.** (C) It is the third line of defence, acting as risk assurance.

In the standard "Three Lines of Defence" model, the internal audit function serves as the third line. The first line is the business functions that take risks, and the second line includes risk management and compliance functions that provide oversight. Internal audit provides independent assurance to the board and senior management on the effectiveness of the first two lines, acting as risk assurance.

- 71.** (B) The bank must make a 100 per cent provision in respect of these entries.

When a bank has unreconciled debit entries in its Nostro accounts that have been outstanding for more than two years, it is mandated to make a full hundred per cent provision. This conservative accounting treatment ensures that potential losses from these long-outstanding items are fully recognized in the financial statements, protecting the bank's capital from being overstated by unrecoverable balances.

- 72.** (A) I, II, III, IV

The standard compliance monitoring process begins with branches reporting breaches to the Regional or Zonal Office. Next, the RO/ZO forwards this information to the Central Office Compliance department. Simultaneously, a copy is provided to the Risk officer. Finally, the Risk officer uses this data and other risk parameters to select branches for independent, random compliance testing to verify the data.

- 73.** (C) It must give prior intimation at least two working days in advance, excluding the date of intimation and meeting date.

For a board meeting where a proposal for voluntary delisting is to be considered, the listed entity must provide prior intimation to the stock exchange. This notice must be given at least two working days in advance, excluding the date of the intimation and the date of the meeting itself. This short notice period is standard for proposals involving changes in listing status.

- 74.** (A) P-2, Q-4, R-1, S-3

The principles for internal audit focus on core values and structures. Principle 2 emphasizes independence and objectivity. Principle 3 focuses on professional competence and due care. Principle 4 highlights the importance of integrity in the audit process. Principle 5 addresses the necessity of a well-defined internal audit policy, ensuring that the function has a clear mandate and operational framework.

- 75.** (A) It should be disclosed by the listed entity, if considered material (Para B).

Disruption of operations caused by a natural calamity is categorized under Para B of the listing regulations. Unlike Para A events, which require mandatory disclosure, Para B events are only reported to the stock exchange if the bank's management determines the event is material. This assessment depends on the scale of the disruption and its potential impact on business.

- 76.** (A) P-3, Q-4, R-1, S-2

Regulation 31 covers the shareholding pattern and holding of specified securities. Regulation 33 deals with the disclosure of financial results. Regulation 34 outlines the requirements for the

style.

III. The integrity, ethics, and competence of personnel.

IV. External influences that affect operations (e.g., statutory audits).

V. The effectiveness of human resources policies and procedures.

Which of the above statement(s) is/are correct?

(A) I, II, III, and V only

(B) I, II, and III only

(C) II, III, IV, and V only

(D) I, II, III, IV, and V

Oct/Nov 2014

7. A bank's senior management, with the assistance of the Compliance department, is required to ensure several activities. Which of the following is NOT one of those explicitly required activities?

(A) To provide clarification on any compliance related issues.

(B) To conduct an independent review of the compliance function at least once in three years.

(C) To monitor and periodically test compliance by performing sufficient and representative testing.

(D) To examine sustenance of compliance as an integral part of compliance testing.

May/June 2012

8. Read the following scenario regarding a regulatory notice. Based on standard compliance governance guidelines, answer the question that follows.

A bank receives a Show Cause Notice (SCN) from the Regulator regarding a violation of foreign exchange guidelines. The Forex department handles the issue but fails to report it to the Top Management, believing they can resolve it internally. What is the correct procedural requirement?

(A) Escalate the SCN to the Top Management/ MD&CEO under advice to the Compliance Department.

(B) Notify the Regulator that the matter is under internal review while suspending the Forex Head.

(C) Keep the issue strictly confidential to avoid panic within the Board and among

shareholders.

(D) Reply to the SCN independently without consulting the Forex department or the senior Board.

Oct/Nov 2006

9. Consider the following statements regarding the appointment and removal of the Chief Compliance Officer (CCO):

I. A prior intimation to the Department of Supervision, RBI, must be provided before the appointment, premature transfer, or removal of the CCO.

II. Such intimation to RBI must be supported by a detailed profile of the candidate along with the 'fit and proper' certification by the Board.

Which of the above statement(s) is/are correct?

(A) Both I and II

(B) Only I

(C) Only II

(D) Neither I nor II

May/June 2019

10. How frequently should verification of members' accounts be performed as part of an audit programme?

(A) At least once a month.

(B) At least once every six months.

(C) At least once a year.

(D) At least once every two years.

Oct/Nov 2010

11. Consider the following elements used for the identification of Compliance requirements:

I. Master Circulars/master directions of RBI consolidated and updated.

II. Various laws/statutes applicable to banks.

III. RBI guidelines issued from time to time.

IV. Bank's internal guidelines and policies.

Which of the above statement(s) is/are correct?

(A) I, II, and IV only

(B) II, III, and IV only

(C) I, III, and IV only

(D) I, II, III, and IV

May/June 2021

12. Which of the following is an accurate representation of a specific internal control activity in a bank?

CHAPTER 28

Compliance Governance Structure

Oct/Nov 2018

1. A functional department head converts a complex new statutory guideline into a simple job card with specific actionable points. The job card includes mandatory exceptional reports for the branch staff to follow. This action best demonstrates which key function of the designated compliance officer within a functional department?

- (A) Conducting compliance testing on a sample basis across multiple business lines.
- (B) Converting regulatory guidelines into actionable instructions with enablers.
- (C) Ensuring the compliance policy is independently reviewed every three years by ACB.
- (D) Vetting new products in the Product Group Committee to ensure they meet KYC norms.

May/June 2023

2. Identify the incorrectly matched pair regarding internal controls and their functions:

- (A) Risk assessment through the systematic identification and analysis of all institutional risks.
- (B) Control environment representing the Board's commitment to internal control and ethics.
- (C) Independent external audit of financial records by regulators to verify asset quality.
- (D) Control activities being policies and procedures that establish necessary management directives.

Oct/Nov 2009

3. To whom does the Chief Compliance Officer (CCO) directly report according to the advised reporting structure in banks?

- (A) To the MD & CEO and/or the Board/Board Committee (ACB) of the bank.
- (B) Only to the Managing Director & CEO.
- (C) To the Audit Committee of the Board

(ACB) and the Board of Directors exclusively.

- (D) To the functional departments at the Central/Head Office.

May/June 2016

Consider the following statements about the accountability for non-compliance in a banking environment:

- I. Responses to non-compliance may be either facilitative or punitive.
- II. Inadequate supervision is considered a form of non-compliance.
- III. The inaccurate release of data due to accident is exempted from being treated as non-compliance.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

Oct/Nov 2025

5. Which of the following statements is correct regarding the organisational structure of the Compliance function in a bank?

- (A) The business verticals should directly report to the Audit Committee of the Board.
- (B) Compliance Officers posted at Regional/Zonal Offices are required to report directly to the functional departments.
- (C) The CCO shall review the performance of all Functional Heads in the Bank.
- (D) The performance appraisal of the CCO is reviewed by the Board/ACB.

May/June 2007

6. Elements of a bank's control environment include which of the following?

- I. The organisational structure of the institution.
- II. Management's philosophy and operating

S. Independent checks

List II: Objective

1. Using pre-numbered documents to facilitate monitoring.
2. Account reconciliation to verify recorded amounts are accurate.
3. Requiring dual signatures for transactions over a specified limit.
4. Keeping asset custody separate from transaction authorisation.

- (A) P-3, Q-4, R-1, S-2
 (B) P-4, Q-3, R-2, S-1
 (C) P-1, Q-2, R-3, S-4
 (D) P-2, Q-1, R-4, S-3

Oct/Nov 2019

19. Identify the incorrect statement regarding compliance operations for overseas establishments of a bank.
- (A) Compliance officers at overseas branches must conduct testing and submit reports at half-yearly intervals.
- (B) Overseas branches must use KYC-AML policies updated and reviewed not more than a year ago.
- (C) Monthly certificates on Regulatory Violations/Enforcement Actions must be obtained from overseas branches.
- (D) Chief Executives of overseas centres should report major non-compliance issues instantly to the H.O. Compliance Department.

May/June 2025

20. Match the “lines of defense” against risks in List I with their respective roles in List II as per regulatory expectations:

List I: Line of Defense

- P. First line of defense
 Q. Second line of defense
 R. Third line of defense
 S. Governing body

List II: Role

1. Internal audit function
2. Business functions
3. Risk management and compliance
4. Board of Directors

- (A) P-2, Q-3, R-1, S-4
 (B) P-3, Q-2, R-4, S-1
 (C) P-1, Q-4, R-2, S-3
 (D) P-4, Q-1, R-3, S-2

Oct/Nov 2011

21. In the context of Chief Compliance Officer (CCO) participation in committees, which action best aligns with prescribed governance guidelines?
- (A) The CCO acts as a voting member in a committee dealing with purchases and sanctions.
- (B) The CCO avoids participation in the Audit Committee of Executives completely.
- (C) The CCO makes executive decisions in the Credit Risk Management Committee.
- (D) The CCO assumes a purely advisory role in a committee dealing with purchases.

May/June 2009

22. Regarding the transition to digital banking and the role of compliance, consider the following statements:
- I. Banking products are now available at the doorsteps of millions across the country.
 - II. The Supervisory approach aims to weaken internal defenses to allow greater market flexibility.
 - III. Supervisory objective enhances the ability to anticipate risks early and take preventive steps.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 (B) II and III only
 (C) I and III only
 (D) I, II, and III

Oct/Nov 2024

23. Match the functional roles in List I with their corresponding activities in List II:

List I: Functional Roles

- P. Functional Heads at Central Office
 Q. Chief Compliance Officer
 R. BPR (Business Process Re-engineering)
 S. Audit Committee of Board

List II: Activities

1. Designate a senior officer in Scale IV or V as Compliance Officer.
2. Acts as the nodal point of contact with the Regulator.
3. Convener of the Product Group Committee.
4. Periodically reviews the status of Audit Functions and performance.

- (A) P-1, Q-2, R-3, S-4

- (A) Officers and authorisation employees in sensitive positions must be absent for four consecutive weeks each year.
- (B) Control systems guarantee the absolute prevention of surprises and execution risk.
- (C) Approvals and authorisations for all transactions over a specified limit should require dual signatures.
- (D) Senior management must only review financial reports annually to compare results to budget amounts.

Oct/Nov 2022

- 13.** The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option to describe the relationship between them.

Assertion (A): The compliance function and the audit function of a bank should necessarily be kept separate.

Reason (R): Assigning audit or inspection duties to the compliance staff gives rise to a conflict of interest.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2005

- 14.** Expectations from Supervised Entities (SE) during Risk Based Supervision highlight several key aspects. Which of the following is NOT one of those expectations?
- (A) Business functions, risk management/ compliance, and internal audit are the three lines of defense.
 - (B) Oversight/assurance functions should have the same stature as business verticals.
 - (C) Compliance function must be completely outsourced to a specialised third-party agency.
 - (D) Senior management should not interfere in the independence of oversight/assurance functions.

NODIA

Oct/Nov 2016

- 15.** How is the term “Regulatory Focus” generally contextualised in bank compliance?
- (A) As an annual plan submitted to the ACB.
 - (B) As the primary responsibility of the functional departments.
 - (C) As a reporting format for overseas branches.
 - (D) As one of the bases for the assessment of Compliance Risk.

May/June 2018

- 16.** In the context of internal control components, what is the primary role of “Accounting, information, and communication systems”?
- (A) To ensure the physical security of teller operations and vault access at branch locations.
 - (B) To mandate cross-training programmes for office staff to maintain operational continuity.
 - (C) To serve as a complete substitute for the Board of Directors’ oversight and governance duties.
 - (D) To identify, assemble, analyze, classify, record, and report various bank transactions.

Oct/Nov 2007

- 17.** Why is the Chief Compliance Officer appointed as the nodal point of contact between the bank and the Regulator?
- (A) To replace the oversight functions of the Audit Committee of the Board in daily reporting.
 - (B) To ensure statutory directions are appropriately brought to the notice of the Regulator.
 - (C) To manage and oversee the daily operational transactions of the bank’s domestic branches.
 - (D) To independently conduct the annual statutory audit of the bank for the Board of Directors.

May/June 2014

- 18.** Match the control activity in List I with its objective in List II:
- List I: Control Activity
- P. Approvals and authorisation
- Q. Segregation of duties
- R. Design and use of documents

59. (A) I, II, III, and IV

Accounting Standards provide a rigorous framework for bank reporting. AS 5 requires disclosure of prior period items, and AS 9 covers revenue recognition uncertainties. AS 17 mandates specific business and geographical segment formats. AS 21 governs the consolidation process. However, statement five is incorrect because AS 23, not AS 22, is the standard for accounting for investments in associates in consolidated statements.

60. (C) Unreconciled transitory credit balances shall be moved to profit and loss immediately.
Unreconciled transitory credit balances in Nostro accounts should not be moved immediately to the profit and loss account. Instead, long-outstanding credit entries exceeding three years must be transferred to a Blocked Account and reckoned for CRR/SLR. For debit entries exceeding two years, a full hundred per cent provision is mandatory. These rules prevent the inflation of profits with unreconciled balances.**61. (B) I, II, IV, and V**

Banks must transfer twenty-five per cent of profits to the Statutory Reserve, and other laws might require a twenty per cent transfer to general reserves. Share premium accounts cannot be used for debt instrument expenses. Fraud provisioning can be spread over four quarters. Crucially, statement three is false because any draw down from the Statutory Reserve requires explicit prior regulatory approval.

62. (C) Capacity addition or product launch

Events under Para A must be disclosed without a materiality test, such as changes in credit ratings, issuance of securities, or winding-up petitions. Capacity additions and product launches, however, fall under Para B. This means they are only disclosed if the bank's management determines they are material to the organization's financial position or operations, based on established internal policies.

63. (C) Assertion (A) is true, but Reason (R) is false.

Commercial banks are indeed required to transfer at least twenty-five per cent of their net profit to the Statutory Reserve. However,

the reason provided is incorrect because cooperative banks are governed by different sets of regulations and laws, which may specify different transfer percentages. The twenty-five per cent rule is a specific mandate for commercial banks to ensure capital resilience.

64. (D) The total number of employees in the branch

When selecting a sample size for compliance testing, banks focus on risk-related parameters. These include the inherent risk of the activity, the history of major breaches, and the specific focus of regulatory authorities. The total number of employees in a branch is not a specified parameter for determining the audit sample size, as it does not directly correlate with transaction risk.

65. (C) Assertion (A) is true, but Reason (R) is false.

Adjustments from the Blocked Account containing segregated inter-branch credit entries require the authorization of two officials to prevent unauthorized entries into income. However, the reason is incorrect because the balance in this Blocked Account is indeed reckoned as a liability for the purpose of maintaining the Cash Reserve Ratio, ensuring that the bank holds appropriate liquid reserves.

66. (C) Personal residential addresses of all board members

Listed entities must disclose the composition of board committees, related party policies, and details of director familiarisation programmes on their websites. While they must provide information about their directors, disclosing personal residential addresses is not a regulatory requirement and would violate privacy standards. The focus of website disclosure is on corporate governance, financial transparency, and operational policies for investors.

67. (A) HIA reports to the ACB, CEO, or WTD, with no relationship to business verticals.

The primary breach in the scenario is the reporting line. Regulatory standards require the Head of Internal Audit to report to the Audit Committee of the Board, the CEO, or a Whole-Time Director. Reporting to the Chief Financial Officer is a violation because

- (B) P-2, Q-1, R-4, S-3
 (C) P-1, Q-3, R-2, S-4
 (D) P-3, Q-2, R-1, S-4

May/June 2010

24. The culture of an entity is influenced by which of the following elements?
 I. Tone from the top.
 II. Incentive structure.
 III. Accountability and transparency.
 IV. Effective communication and awareness.
 Which of the above statement(s) is/are correct?
 (A) I, II, and III only
 (B) I, III, and IV only
 (C) II, III, and IV only
 (D) I, II, III, and IV

Oct/Nov 2005

25. Which of the following pairs regarding report frequencies is incorrectly matched?
 (A) Exceptions regarding material compliance failures - Weekly report to ED/CMD
 (B) Important regulatory communications status - Monthly report to the Board
 (C) Assessment of Compliance Function/Risk - Yearly report to the Board
 (D) Status of compliance of regulatory communications - Summarised quarterly report to ACB

May/June 2017

26. When a compliance department is assessing a material compliance failure, they evaluate it based on which of the following factors?
 I. The detriment or risk of detriment to the Bank.
 II. The scale of the issue.
 III. The overall impact on the Bank and its clients.
 IV. The extent of any risk of loss of confidence in the Bank.
 V. The provision of legal services generally.
 Which of the above statement(s) is/are correct?
 (A) I, II, III, and IV only
 (B) I, II, IV, and V only
 (C) II, III, IV, and V only
 (D) I, II, III, IV, and V

Oct/Nov 2015

27. Regarding the compliance structure at field levels, consider the following statements:
 I. The Branch manager will function as the Compliance officer for his branch.
 II. Conflict of interest of managing compliance risk and business development can be completely avoided at the branch level.
 III. Departmental heads in Regional/Zonal offices are responsible for managing the compliance function pertaining to their functional area.
 Which of the above statement(s) is/are correct?
 (A) I and II only
 (B) II and III only
 (C) I and III only
 (D) I, II, and III

May/June 2020

28. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option to describe the relationship between them.
 Assertion (A): Effective internal control reduces the possibility of significant errors and irregularities.
 Reason (R): It provides an absolute guarantee that the bank will never face financial loss or regulatory sanctions.
 (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 (C) Assertion (A) is true, but Reason (R) is false.
 (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2021

29. Regarding overseas centres, consider the following statements about the Compliance Officer (CO):
 I. The independent Compliance Department is headed by a local compliance officer or an India Based Officer.
 II. The CO is preferably in the level of Scale III/IV.
 III. The CO may be a local staff member if mandated by the Host Regulator.

NODIA

Annual Report. Finally, Regulation 36 specifies the documents and information that must be provided to shareholders. These regulations collectively ensure comprehensive disclosure and communication between a listed entity and its investors and the market.

- 77.** (B) Bank may provision for the fraud over a period not exceeding four quarters.

To prevent a massive impact on the financial results of a single quarter, banks are permitted to spread the provisioning for a detected fraud over a period of up to four quarters. This begins from the quarter in which the fraud was detected. This phased approach allows the bank to manage its capital and profitability more steadily while ensuring losses are recognized.

- 78.** (A) P-1, Q-2, R-3, S-4

Events like the issuance of securities and revisions in credit ratings are Para A events, requiring mandatory disclosure. In contrast, disruptions from natural calamities and product launches fall under Para B, meaning disclosure is conditional upon a materiality assessment. This distinction helps focus the market's attention on inherently significant events while allowing companies discretion on less universally critical updates.

- 79.** (D) As an associate

In the preparation of Consolidated Financial Statements, a sponsor bank must treat its Regional Rural Bank as an associate. This is because the sponsor bank typically holds a thirty-five per cent stake, which provides significant influence but not full control. Therefore, the RRB is accounted for using the equity method as per the standards for associates, rather than as a subsidiary.

- 80.** (D) Domestic and International

For the purpose of secondary segment reporting under Accounting Standard 17, banks are required to use geographic segments. The standard categorization for this disclosure is the division between domestic operations and international operations. This split allows stakeholders to evaluate the different risk profiles and regulatory environments associated with the bank's home-country activities versus its business conducted through foreign branches.

According to the categorisation of non-compliance, how should this act of “Data hoarding” be addressed?

- (A) It should be ignored if the bank did not suffer a direct financial loss from the high-value trade.
- (B) It should be resolved by transferring the employee to an overseas branch for retraining purposes.
- (C) Treat as a material failure subject to fair and transparent investigation processes.
- (D) It is an acceptable practice if done specifically to protect the bank’s reputation in the market.

Oct/Nov 2013

- 35.** Which of the following accurately describes the role of the Learning and Development (L&D) Department in bank compliance?
- (A) Providing education for compliance staff on new products, risk management, and banking laws.
 - (B) Conducting preliminary inquiries for compliance breaches to determine immediate staff liability.
 - (C) Directly reporting compliance testing findings to the ACB to ensure executive level transparency.
 - (D) Vetting all new products before launch to determine their suitability for the domestic market.

May/June 2008

- 36.** Read the following scenario regarding regulatory strictures. Based on standard compliance procedures, answer the question that follows.
- The Head of the Forex Department receives a stricture from the Regulator regarding discrepancies in cross-border transaction reporting. To prevent reoccurrence, what internal exercise must the Forex Department perform before apprising the Board?*
- (A) A public press release denying the discrepancies.
 - (B) An automatic deduction of penalties from all departmental staff salaries.
 - (C) Suspension of all cross-border transactions indefinitely.
 - (D) Root cause analysis of the reasons resulting in the stricture.

Oct/Nov 2012

- 37.** The sources of non-compliance/compliance failure/breaches may be derived from multiple areas. Which of the following is NOT explicitly identified as such a source?
- (A) Business Verticals(s)
 - (B) Inspection and Audit Department from their audit findings
 - (C) Regulatory inspections/independent assessments by regulators
 - (D) Competitor bank disclosures

May/June 2015

- 38.** Read the following scenario regarding an inquiry committee. Based on standard compliance structure, answer the question that follows.
- The Chief Compliance Officer (CCO) discovers a severe breach involving a senior functional head. A preliminary inquiry is established. Due to the unavailability of the Assistant General Manager of the Compliance Department, who can step in to serve on this committee?*
- (A) The Managing Director and CEO of the banking institution.
 - (B) An external independent auditor specializing in forensics.
 - (C) The senior most Chief Manager of the Compliance Department.
 - (D) A representative from the Regulator’s supervision wing.

Oct/Nov 2020

- 39.** Arrange the steps in the process of handling complaints of non-compliance or breaches in the correct sequence:
1. Form a preliminary inquiry by the CCO for fact-finding.
 2. Initiate the investigation upon receipt of the preliminary inquiry report.
 3. Conduct the investigation by an authorized officer within 15 working days.
 4. Submit the findings of the investigations to the ACB and MD & CEO.
- (A) 1, 2, 3, 4
 - (B) 2, 1, 3, 4
 - (C) 1, 3, 2, 4
 - (D) 3, 1, 2, 4

ANSWERS

1. (B) Converting regulatory guidelines into actionable instructions with enablers.
Translating complex statutory requirements into simplified, actionable points like job cards is a core responsibility of functional department heads. This process ensures that branch staff can implement regulatory mandates effectively through clear instructions and enablers. Such practical tools bridge the gap between high-level policy and daily operational execution within the bank to ensure consistent adherence to guidelines.
2. (C) Independent external audit of financial records by regulators to verify asset quality.
Internal controls are processes designed and implemented by an institution's board and management rather than by external regulators. While regulators perform inspections, these are distinct from the internal control framework. Proper internal controls focus on risk assessment, the control environment, and specific activities that provide reasonable assurance regarding operational efficiency, reliable reporting, and compliance with laws and regulations.
3. (A) To the MD & CEO and/or the Board/Board Committee (ACB) of the bank.
The regulatory framework for banks mandates a dual reporting line for the Chief Compliance Officer to maintain independence and authority. Reporting directly to the Managing Director and the Audit Committee of the Board ensures that compliance issues are addressed at the highest levels. This structure facilitates effective oversight and ensures the compliance function remains autonomous from business-line pressures.
4. (A) I and II only
Accountability for non-compliance in banking environments involves both facilitative measures for improvement and punitive actions for serious breaches. Inadequate supervision by managers is categorized as a form of non-compliance because it weakens internal defenses. However, the accidental release of data is not exempted from accountability, as all data integrity issues require proper scrutiny to prevent future occurrences.
5. (D) The performance appraisal of the CCO is reviewed by the Board/ACB.
Ensuring the independence of the compliance function requires that the Chief Compliance Officer's performance is not evaluated solely by executive management. Instead, the Board or the Audit Committee of the Board reviews the appraisal to prevent conflicts of interest. This governance mechanism protects the officer from undue pressure while performing critical oversight duties across various bank departments.
6. (D) I, II, III, IV, and V
A robust control environment encompasses the overall tone of an organization, including management philosophy, ethical values, and personnel competence. It also integrates organizational structure and human resources policies to establish a framework for internal controls. External influences, such as statutory audits, further shape this environment by providing independent validation of the bank's internal operational standards and governance protocols.
7. (B) To conduct an independent review of the compliance function at least once in three years.
While the compliance function must undergo an independent review every three years, this responsibility lies with the Board of Directors rather than senior management. Senior management is tasked with providing clarifications, monitoring compliance through testing, and ensuring sustenance of compliance. The periodic independent review serves as an external check on the effectiveness of both the management and the department.

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Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) I, II, and IV only
- (C) II, III, and IV only
- (D) I, III, and IV only

May/June 2023

46. Identify the incorrect statement regarding the responsibilities of the Board of Directors in compliance governance.

- (A) The Board must ensure an appropriate compliance policy is in place.
- (B) The Board ensures the compliance function is subject to independent review at least once in three years.
- (C) Ensure the compliance department reports directly to the external statutory auditors.
- (D) The Board ensures the compliance function and the audit function of the bank are kept separately.

Oct/Nov 2025

47. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option to describe the relationship between them.

Assertion (A): Well-designed control systems are still subject to execution risk.

Reason (R): Human beings must execute most control systems, and even well-trained personnel can become distracted, careless, tired, or confused.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2007

48. What is the primary purpose of the selection committee constituted by the Board when filling the post of the Chief Compliance Officer (CCO)?

- (A) To finalise the appointment and issue the 'fit and proper' certification for board

review.

- (B) To provide prior intimation and candidate details to the Department of Supervision, RBI.
- (C) To evaluate the detailed rationale for any changes in the compliance structure and hierarchy.
- (D) To recommend suitable candidates based on a merit-ordered selection process.

Oct/Nov 2014

49. How is "Internal control" generally distinguished from "Internal audit"?

- (A) An objective review of activities versus the underlying systems and policies of the bank.
- (B) Systems/policies effected by the Board versus an independent review of these controls.
- (C) Processes conducted exclusively by regulators versus those managed by internal stakeholders.
- (D) There is no distinction as these terms are used interchangeably within regulatory frameworks.

May/June 2012

50. Consider the following statements regarding the assessment of Compliance Risk:

- I. It involves evaluating the nature of activity to determine if it is inherently high risk.
- II. It considers the bank's exposure to the activity, signifying its materiality.
- III. It excludes the history of breaches reported in the past, focusing solely on future regulatory focus.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

Oct/Nov 2006

51. The separation of duties is a fundamental control activity. Why is it recommended that assets should not be in the custody of the person who authorises or records transactions?

- (A) To reduce a person's opportunity to commit and conceal fraud or errors.
- (B) To speed up the processing time of complex transactions.

May/June 2011

40. Read the following scenario regarding staff leave. Based on standard internal control objectives, answer the question that follows.
- The Board of a bank wants to ensure that the internal control system is functioning effectively. They decree that all officers in the cash management department must take a mandatory continuous leave annually. What is the primary control objective of this requirement?*

- (A) Helping uncover potential concealed fraud or errors in sensitive positions.
- (B) Improving employee morale and mental health across all management cadres.
- (C) Reducing overall HR costs and administrative overheads for the branch network.
- (D) Ensuring that cross-training of office staff is avoided to maintain specialization.

Oct/Nov 2023

41. Which of the following pairs concerning the inquiry committee for non-compliance in a bank is correct?
- (A) 15 working days from receipt of the preliminary inquiry report for the investigation.
 - (B) Including all three Assistant General Managers within the committee to ensure neutrality.
 - (C) Managing Director directly initiating fact finding upon receiving the initial breach report.
 - (D) Sent exclusively to the external statutory auditor for review before the Board meeting.

May/June 2022

42. What primarily led to the development of internal control functions and the subsequent creation of functions that changed reporting structures in banks?
- (A) The ongoing expansion of operational and regulatory duties within international financial institutions.
 - (B) A reaction to financial scandals exposing the fragility of adopted control mechanisms.
 - (C) The strategic pursuit of regulatory goals by authorities to avoid institutional complexities.
 - (D) The systematic introduction of compliance

functions in pre-existing units to streamline audits.

Oct/Nov 2009

43. Consider the following statements regarding the reporting of Show Cause Notices (SCNs) or Penalties:
- I. Any adverse action against the Bank exposing it to reputational risk must be reported to the Top Management/ MD&CEO under advice to the Compliance Department.
 - II. The concerned HO department must perform a root cause analysis to apprise the Board about the reasons and corrective actions taken.

Which of the above statement(s) is/are correct?

- (A) Both I and II
- (B) Only I
- (C) Only II
- (D) Neither I nor II

May/June 2016

44. Why is the Chief Compliance Officer (CCO) required to meet the Audit Committee of the Board (ACB) quarterly on a one-to-one basis without the presence of senior management, even if the CCO reports to the MD & CEO?
- (A) To evaluate the performance appraisal of the MD & CEO directly in line with annual review cycles.
 - (B) To formulate detailed proposals for the mitigation of compliance risk in specific business lines.
 - (C) To facilitate independent and unhindered discussion of compliance functions and issues.
 - (D) To delegate the oversight of compliance functions to the ACB for comprehensive periodical review.

Oct/Nov 2018

45. Effective internal control objectives aim to provide reasonable assurance regarding which of the following?
- I. Bank operations are efficient and effective.
 - II. Recorded transactions are accurate and financial reporting is reliable.
 - III. Complete elimination of execution risk by human beings.
 - IV. The bank complies with banking laws,

2. Dual control, joint custody, and limit access by authorised personnel.
 3. Books must reflect actual financial condition accurately.
 4. Tested contingency plan for computer system failures.
- (A) P-4, Q-3, R-2, S-1
 (B) P-3, Q-4, R-1, S-2
 (C) P-4, Q-2, R-3, S-1
 (D) P-1, Q-2, R-3, S-4

May/June 2018

58. Regarding the Product Group Committee in the domestic setup of a bank, which statement is correct?
- (A) The CCO serves as the sole approving authority for all newly introduced banking products.
 (B) The BPR or Head Products acts as the convener of the Product Group Committee.
 (C) The committee is mandated to exclusively vet products only after their official launch.
 (D) All overseas branches and regional centers are exempted from the vetting of new products.

Oct/Nov 2007

59. Consider the following regarding the expectations from the compliance function from a policy perspective:
- I. Board/Board Level Committee should formulate a quality assurance and improvement program for oversight and assurance functions.
 II. Quality assurance may include an external assessment for adherence to the policy, objectives, and expected outcomes.
- Which of the above statement(s) is/are correct?
- (A) Both I and II
 (B) Only I
 (C) Only II
 (D) Neither I nor II

May/June 2014

60. The Compliance Department is responsible for placing various Management Information Systems (MIS) reports. Which of the following is NOT one of the mandated reports?
- (A) A monthly report through EDs/CMD to the Board on the status of important

regulatory communications.

- (B) A summarised quarterly report to ACB on the status of compliance of regulatory communications.
 (C) A half-yearly report to the MD & CEO assessing the performance appraisal of functional heads.
 (D) A yearly report to the Board on the assessment of Compliance Function/Risk.

Oct/Nov 2019

61. According to expectations regarding compliance culture, what is the primary consequence of an inadequate compliance culture within a bank?
- (A) An immediate takeover of the bank's management by the Regulator without prior notice.
 (B) Heightened risk including legal sanctions, business restrictions, and reputational loss.
 (C) The automatic cancellation of the bank's operating license and suspension of services.
 (D) The compulsory outsourcing of all internal audit functions to an external oversight firm.

May/June 2025

62. Arrange the following steps taken for submitting Risk Based Supervision (RBS) data to the Regulator in the correct sequence:
1. Co-ordinate with the Senior Supervisory Manager Team of the Regulator.
 2. Review/interact with the concerned functional department for data correctness.
 3. Vet the data by a committee of DGM/AGM level executives.
 4. Submit the data under various Tranches to the Regulator.
- (A) 1, 2, 3, 4
 (B) 2, 3, 1, 4
 (C) 1, 3, 2, 4
 (D) 2, 1, 3, 4

Oct/Nov 2011

63. To address instances of non-compliance, the CCO forms a preliminary inquiry committee. Consider the following potential members:
- I. Assistant General Manager - Risk Department
 II. Assistant General Manager - Human

- (C) To ensure that computer systems are not overburdened with concurrent tasks.
- (D) To eliminate the need for an independent external audit.

May/June 2019

- 52.** The Compliance Department established at the Head Office of a bank undertakes various functions. Consider the following:
- I. Identify business functions falling under statutory guidelines.
 - II. Formulate proposals for mitigation of compliance risk.
 - III. Assign compliance staff to concurrent audit duties to ensure comprehensive oversight.
 - IV. Evolve strategies for communication on compliance matters between branches and Zonal Compliance Departments.
 - V. Periodically circulate instances of compliance breaches to ACB along with preventive instructions.
- Which of the given statements represent correct functions of the Compliance Department?
- (A) I, II, IV, and V only
 - (B) I, III, IV, and V only
 - (C) II, III, IV, and V only
 - (D) I, II, III, IV, and V

Oct/Nov 2010

- 53.** Identify the incorrect statement regarding aspects of internal controls that deserve special attention.
- (A) The bank should have a tested contingency plan in place for possible computer system failures.
 - (B) An annual audit plan is necessary to ensure all risk areas are examined with greatest risk areas receiving priority.
 - (C) A principal method of safeguarding physical assets is to limit access by authorised personnel.
 - (D) Segregation of duties is unrestricted and unaffected by the number of employees in smaller banks.

May/June 2021

- 54.** The following scenario describes an appointment in a private sector bank. Based on standard regulatory guidelines, answer the question that follows.
- A private sector bank is setting up its*

Compliance Department at the corporate office. The Board appoints Mr. Sharma, an Assistant General Manager, as the Chief Compliance Officer (CCO). The bank's CEO holds the highest executive rank. Assuming standard hierarchy, evaluate this appointment.

- (A) The appointment is valid as the CCO can hold any senior management rank within the hierarchy.
- (B) The appointment is valid only if Mr. Sharma has prior experience in the Reserve Bank of India.
- (C) The CCO rank should not be below two levels from the CEO, preferably a GM or equivalent.
- (D) The appointment is invalid because the CCO must be recruited directly from the open market.

Oct/Nov 2022

- 55.** A strong compliance culture aims to protect the five basic rights of the customer. Which of the following is NOT one of these five basic rights?
- (A) Right to Fair Treatment
 - (B) Right to Maximum Profit
 - (C) Right to Privacy
 - (D) Right to Grievance Redress and Compensation

May/June 2005

- 56.** For how many months from their introduction must all new products and processes be monitored intensively by the Product Group Committee to ensure compliance risk parameters are met?
- (A) 3 months
 - (B) 6 months
 - (C) 9 months
 - (D) 12 months

Oct/Nov 2016

- 57.** Match the aspect of internal control in List I with its corresponding description in List II:
- List I: Aspect
- P. Information Systems
 - Q. Record keeping
 - R. Protection of physical assets
 - S. Education of Staff
- List II: Description
- 1. Cross-training programmes ensure continuity of operations.

(R). Choose the correct option to describe the relationship between them.

Assertion (A): The Compliance function is considered a core activity of the entity and must not be outsourced.

Reason (R): Adherence to applicable statutory provisions and regulations is the responsibility of each staff member, and the compliance function ensures this adherence.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2020

70. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option to describe the relationship between them.

Assertion (A): The Branch manager, accountant, and other officers are primarily responsible for the compliance of rules and regulations at the branch level.

Reason (R): The products of the Bank are delivered and serviced through them, inherently intertwining business execution with compliance risk.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2021

71. Read the following scenario regarding branch breaches. Based on standard compliance function structures, answer the question that follows.

A Zonal Manager (ZM) oversees a region with fifty branches. After a recent internal audit,

significant compliance breaches regarding KYC norms were observed across several branches. According to the compliance function structure at Regional/Zonal levels, what is the immediate responsibility of the ZM regarding these observed breaches?

- (A) Terminate the branch managers immediately without conducting a formal inquiry into the matter.
- (B) Report the breaches immediately and ensure that necessary corrective action measures are taken.
- (C) Wait for the next annual review to present the findings to the Board for policy level discussion.
- (D) Modify the bank's overall compliance policy to accommodate the observed field level practices.

May/June 2013

72. How is the compliance required for communications from the Regulator or Ministry of Finance that request the formulation of a policy or the issuance of circulars classified?

- (A) Definite action.
- (B) Marked as noted.
- (C) General overview.
- (D) Advisory instruction.

Oct/Nov 2008

73. Read the following scenario regarding document controls. Based on standard internal control activities, answer the question that follows.

During a system upgrade, the IT department of a bank temporarily disables the pre-numbered document generation system. The branch staff resort to using blank paper slips to record high-value cash deposits. Which specific internal control activity is being compromised in this scenario?

- (A) Using pre-numbered documents to ensure transactions are accurately recorded and monitored.
- (B) Approvals and authorisation for transactions requiring dual signatures from senior managers.
- (C) Segregation of duties between the teller and the branch manager regarding cash settlements.
- (D) The requirement for sensitive personnel

to be absent for two weeks of mandatory annual leave.

May/June 2024

74. Why is the Human Resources (HR) department required to provide the Compliance Department with staff who have knowledge of law, accountancy, and information technology?
- (A) To eliminate the need for an external statutory auditor by using highly skilled internal staff.
- (B) To ensure staff understand compliance laws and their practical impact on bank operations.
- (C) To facilitate the immediate transfer of staff to cross-border branches for temporary assignments.
- (D) To independently manage the IT infrastructure of the bank without the need for technical support.

Oct/Nov 2017

75. Read the following scenario regarding department auditing. Based on standard compliance governance, answer the question that follows.
- The Audit Committee of the Board (ACB) observes that the Compliance Department at the Central Office is understaffed, leading to delays in quarterly reporting. The ACB directs the management to conduct an audit specifically focusing on the adequacy of the Compliance Department's staff. Which type of audit matches this requirement?*
- (A) Management Audit of Compliance Department.
- (B) Statutory Financial Audit of Assets.
- (C) Concurrent Branch Audit of Deposits.
- (D) External IT Security Audit of Systems.

May/June 2006

76. Identify the incorrect statement regarding the Management Audit of the Compliance Department.
- (A) It serves as a feedback mechanism for the Senior Management/Compliance Department.
- (B) It assesses the adequacy of staff quantitatively and qualitatively.
- (C) It replaces the standard statutory audit of the bank's operational branches.
- (D) It evaluates the quality of regulatory

reporting, including data submitted to the Regulator.

Oct/Nov 2013

77. Read the following scenario regarding product monitoring. Based on standard compliance timelines, answer the question that follows.
- A newly launched digital lending product shows high operational gaps in its first month. The Business Process Re-engineering (BPR) head, acting as the convener of the Product Group Committee, steps in. What is the standard timeline for the BPR to intensively monitor this new product?*
- (A) 1 month from introduction.
- (B) 3 months from introduction.
- (C) 6 months from introduction.
- (D) 12 months from introduction.

May/June 2008

78. When the compliance department is assessing the severity of a material compliance failure, which of the following criteria is most critical?
- (A) The media coverage received by the breach in comparison to previous years' historical data.
- (B) The specific branch size and geographic location where the breach originally occurred.
- (C) The overall impact on the Bank, its clients, and the potential risk of loss of confidence.
- (D) The tenure of the employee who committed the breach and their previous performance appraisals.

Oct/Nov 2012

79. Read the following scenario regarding account reconciliation. Based on standard internal control concepts, answer the question that follows.
- A bank's management implements a new software that automatically reconciles end-of-day accounts, reducing human intervention. However, they continue to schedule periodic management reviews of the summary reports generated by this software. Which internal control concept justifies this continued review?*
- (A) Outsourcing the internal audit function to a qualified third-party firm.
- (B) De-centralisation of the organisational structure across regional units.
- (C) Complete elimination of the Compliance

function for automated branches.

- (D) Periodic checks on whether jobs are done and recorded amounts are accurate.

May/June 2015

80. Match the category of compliance failure in List I with its corresponding example in List II:

List I: Category

P. Level 1 Compliance

Q. Level 2 Compliance

R. Data hoarding

S. Punitive programme output

List II: Example

1. Unreasonable or unjustified withholding of data.
2. Adherence to internal policies/process/manual.
3. Establishing healthy output via accountability.
4. Adherence to external rules prescribed by Regulators.

(A) P-4, Q-2, R-1, S-3

(B) P-2, Q-4, R-3, S-1

(C) P-4, Q-1, R-2, S-3

(D) P-1, Q-2, R-4, S-3

Resources Department

III. Assistant General Manager - Compliance Department

Which of the above can be valid members to select from for this committee?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

May/June 2009

64. Which of the following pairs correctly matches the committee with its appropriate abbreviation?
- (A) Audit Committee of Executives - ACB
 - (B) Credit Risk Management Committee - CMRC
 - (C) Audit Committee of Board - ACE
 - (D) Committee for Operational Risk Management - CORM

Oct/Nov 2024

65. What are the essential requirements for the compliance function according to regulatory expectations?
- I. It must be independent of the business functions.
 - II. It should possess a mutually co-operative functional relationship with business functions.
 - III. It must be outsourced to maintain strict objectivity.
 - IV. It should have the same stature as business verticals.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) I, II, and IV only
- (C) II, III, and IV only
- (D) I, III, and IV only

May/June 2010

66. Consider the following statements about functional departments at the Head Office:
- I. They must ensure that all regulatory communications and feedback from self-regulatory bodies are attended to within 15 days.
 - II. They must ensure that stipulated agendas and review notes are placed before the Board and ACB as per the calendar of reviews.

Which of the above statement(s) is/are correct?

- (A) Both I and II
- (B) Only I
- (C) Only II
- (D) Neither I nor II

Oct/Nov 2005

67. Which of the following correctly represent the responsibilities of the Board of Directors in compliance governance?
- I. Ensure an appropriate compliance policy is in place.
 - II. Ensure compliance issues are resolved expeditiously by senior management.
 - III. Ensure no potential for any conflict of interest exists.
 - IV. Delegate tasks to the Audit Committee of the Board if necessary.
 - V. Directly conduct the daily compliance testing of rural branches.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV only
- (B) II, III, IV, and V only
- (C) I, III, IV, and V only
- (D) I, II, III, IV, and V

May/June 2017

68. Which of the following functions are undertaken by the Compliance Function at RO/ZO/FGMO levels?
- I. Reporting to the Compliance department at the Central office.
 - II. Submitting the status of compliance on a monthly basis to HO.
 - III. Ensuring prompt corrective action measures are taken when breaches are observed.
 - IV. Maintaining proper documents and records in fulfilment of compliance requirements.

Which of the above statement(s) is/are correct?

- (A) I, III, and IV only
- (B) I, II, and III only
- (C) II, III, and IV only
- (D) I, II, III, and IV

Oct/Nov 2015

69. The following question consists of two statements, an Assertion (A) and a Reason

- 8.** (A) Escalate the SCN to the Top Management/ MD&CEO under advice to the Compliance Department.
Regulatory notices such as Show Cause Notices represent significant legal and reputational risks that must be handled with transparency. Standard procedures require functional departments to immediately escalate such notices to top management and the Chief Compliance Officer. This ensures that the bank provides a coordinated response and that the Board remains informed of potential regulatory violations and necessary rectifications.
- 9.** (A) Both I and II
Banks must provide prior intimation to the Reserve Bank of India before appointing or removing a Chief Compliance Officer to ensure regulatory oversight. This submission must include a detailed profile and a certification from the Board regarding the candidate's suitability. These requirements maintain high standards for compliance leadership and protect the function from arbitrary changes that might compromise independence.
- 10.** (D) At least once every two years.
Regular verification of accounts is a critical component of an internal audit programme to prevent fraud and ensure data accuracy. Standard guidelines suggest that this verification process should be conducted for all members' accounts at least once every two years. This cycle helps maintain the integrity of financial records and provides assurance to stakeholders regarding the accuracy of account balances.
- 11.** (D) I, II, III, and IV
Identifying compliance requirements involves a comprehensive review of multiple sources, including various laws, statutes, and regulatory guidelines issued by the central bank. It also necessitates adherence to consolidated Master Circulars and internal policies specific to the institution. Integrating these diverse elements ensures that the bank remains compliant with both external regulations and its own internal governance and operational standards.
- 12.** (C) Approvals and authorisations for all transactions over a specified limit should require dual signatures.
Dual signatures for high-value transactions are a fundamental internal control activity designed to prevent unauthorized or fraudulent activities. This mechanism ensures that no single individual has total control over a significant financial commitment. Unlike mandatory leave, which lasts two weeks, or annual reviews, this specific control operates continuously to manage risk during daily operational cycles within the banking unit.
- 13.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Maintaining separation between the compliance and audit functions is essential to prevent conflicts of interest within a bank's oversight framework. Compliance staff focus on ensuring adherence to rules, while audit staff independently verify the effectiveness of those controls. If these roles are merged, the independence required to objectively evaluate the compliance function's performance is compromised, weakening the internal governance.
- 14.** (C) Compliance function must be completely outsourced to a specialised third-party agency.
Regulatory expectations emphasize that the compliance function is a core internal activity that should not be outsourced. It serves as one of the three lines of defense, alongside business functions and internal audit. Maintaining this function in-house ensures that senior management retains direct accountability and that the oversight function has the necessary institutional stature to influence banking operations effectively.
- 15.** (D) As one of the bases for the assessment of Compliance Risk.
Regulatory focus refers to specific areas of banking operations that supervisors prioritize during inspections or policy updates. In the context of compliance, it serves as a critical factor in assessing compliance risk. By aligning internal risk assessments with regulatory priorities, banks can better anticipate potential challenges and ensure that their compliance

- 48.** (D) To recommend suitable candidates based on a merit-ordered selection process.

When filling the Chief Compliance Officer position, the Board-constituted selection committee is responsible for evaluating candidates against specific criteria. Their primary role is to recommend the most suitable individuals based on a merit-ordered process. This ensures that the selection is transparent and that the appointed officer possesses the necessary skills and integrity to lead the bank's compliance function effectively.

- 49.** (B) Systems/policies effected by the Board versus an independent review of these controls. Internal control refers to the set of policies, processes, and systems established by the Board and management to ensure safe and efficient operations. In contrast, internal audit is an independent function that reviews and evaluates the effectiveness of those very controls. While controls are part of the daily workflow, the audit provides an objective assessment of their adequacy and performance.

- 50.** (A) I and II only

Assessing compliance risk involves evaluating the inherent risk of a specific activity and the bank's level of exposure to it. This materiality check helps prioritize oversight efforts. However, unlike future-only models, a proper assessment must also include a review of past breaches. Historical data provides critical context for understanding recurring weaknesses and the effectiveness of previously implemented internal controls.

- 51.** (A) To reduce a person's opportunity to commit and conceal fraud or errors.

Segregation of duties is a fundamental control designed to prevent a single individual from having enough power to execute and then hide a fraudulent transaction. By separating asset custody from authorization and record-keeping, the bank ensures that multiple people are involved in a process. This structure makes it significantly more difficult for errors or irregularities to go unnoticed or uncorrected.

- 52.** (A) I, II, IV, and V only

The Compliance Department identifies statutory functions, proposes risk mitigation

strategies, and manages communication with regional units. It also reports breaches to the Audit Committee of the Board. However, compliance staff should not be assigned to concurrent audit duties, as this would create a conflict of interest. Maintaining separation between compliance and audit functions is vital for the independence of both units.

- 53.** (D) Segregation of duties is unrestricted and unaffected by the number of employees in smaller banks.

Segregation of duties is often challenged in smaller banks due to limited staff numbers. In such cases, management must implement compensating controls, like more frequent independent reviews, to offset the risk. It is incorrect to say that this principle is unaffected by employee numbers; rather, smaller institutions must find alternative ways to achieve the same control objectives despite their size constraints.

- 54.** (C) The CCO rank should not be below two levels from the CEO, preferably a GM or equivalent.

To ensure the compliance function carries sufficient authority, regulatory guidelines specify that the Chief Compliance Officer should be a senior executive. The rank should generally not be more than two levels below the CEO, typically at the General Manager level or equivalent. This seniority allows the CCO to interact effectively with other functional heads and provide necessary weight to recommendations.

- 55.** (B) Right to Maximum Profit.

Compliance culture in banking is centered on protecting consumer interests through five basic rights: fair treatment, transparency, privacy, grievance redress, and suitability. The "Right to Maximum Profit" is not a recognized customer right, as investment returns are subject to market risks and contractual terms. The bank's duty is to provide honest service and fair treatment rather than guaranteed financial gains.

- 56.** (B) 6 months

All new banking products and processes must undergo intensive monitoring for the first six

of all audit and oversight functions within the bank.

24. (D) I, II, III, and IV

An organization's culture is shaped by several key factors, starting with the tone set by top management. Incentive structures and accountability mechanisms further influence how employees prioritize compliance over short-term gains. Additionally, transparent communication and general awareness across all levels ensure that ethical standards are understood and followed. Together, these elements form the foundation of a strong internal compliance culture.

25. (A) Exceptions regarding material compliance failures - Weekly report to ED/CMD

Material compliance failures and serious breaches must be reported immediately to senior management rather than on a weekly schedule. Immediate reporting is necessary to initiate swift corrective actions and mitigate potential risks. Other reports, such as monthly status updates on regulatory communications or annual assessments of compliance risk, follow their designated periodic schedules to keep the Board fully informed.

26. (A) I, II, III, and IV only

Evaluating the severity of a compliance failure involves analyzing the risk of detriment to the bank and the scale of the issue. It also requires considering the impact on clients and the potential loss of public confidence. While legal services may be consulted during the aftermath, the provision of general legal services is not a factor used to assess the failure.

27. (C) I and III only

At the branch level, the manager is primarily responsible for compliance, which inherently involves a conflict with business development goals. While departmental heads at regional or zonal offices manage compliance for their functional areas, the conflict between business and compliance risk cannot be completely avoided at the field level. It must be managed through oversight and clear reporting lines.

28. (C) Assertion (A) is true, but Reason (R) is false.

Effective internal controls are designed to significantly reduce the risk of errors and irregularities within a bank. However, they cannot provide an absolute guarantee against financial loss or regulatory sanctions. All systems are subject to inherent limitations, such as human error, collusion, or management override. Therefore, controls provide reasonable, rather than absolute, assurance of success and risk mitigation.

29. (A) I, II, III, and IV only

Overseas compliance officers report directly to the Chief Compliance Officer at the Head Office to ensure independent oversight. While they may be local or India-based staff, their appraisal is typically reviewed by the CCO rather than being finalized exclusively by the local Chief Executive. This reporting structure maintains independence in foreign jurisdictions and aligns the function with global institutional standards.

30. (C) Separating transaction authorisation from asset custody to reduce the opportunity for fraud.

The concept of separation of duties is a cornerstone of internal control designed to prevent any single individual from controlling all aspects of a transaction. By ensuring that the person authorizing a loan does not also have custody of the collateral, the bank reduces the risk of undetected fraud. This structural safeguard is essential for maintaining integrity in sensitive operational areas.

31. (D) Promptly report the breach to the Compliance Department for scrutiny and rectification guidance.

When a functional head identifies a recurring compliance failure, the immediate requirement is to report the matter to the specialized Compliance Department. This escalation allows for professional scrutiny to determine the root cause and receive guidance on necessary rectifications. Functional departments should not handle these breaches independently, as delays in reporting increase regulatory and operational risk for the entire institution.

- 32.** (D) Implement the host country's local compliance guidelines since they are more stringent.

In international banking, overseas branches must adhere to both home and host country regulations. When a host country's requirements are more stringent than the bank's internal policies, the branch must follow the stricter local rules. This approach ensures full compliance with the laws of the jurisdiction where the branch operates, thereby avoiding legal penalties and maintaining a positive regulatory relationship.

- 33.** (B) 24 hours

Transparency in financial reporting is critical when regulators identify significant divergences in asset classification or provisioning. If the divergence exceeds the specified threshold, the bank's finance department is mandated to make the necessary public disclosures within 24 hours of receiving the final report. This strict timeline ensures that investors and stakeholders are promptly informed of the bank's true financial position.

- 34.** (C) Treat as a material failure subject to fair and transparent investigation processes.

Deliberately withholding or hoarding vital information from regulatory reporting teams is a serious breach of compliance. Such actions compromise the integrity of the bank's reporting and can lead to severe regulatory sanctions. Consequently, it must be treated as a material failure, warranting a formal and transparent investigation to determine accountability and prevent future occurrences within the organization's reporting framework.

- 35.** (A) Providing education for compliance staff on new products, risk management, and banking laws.

The Learning and Development department supports the compliance function by ensuring that staff are well-educated on the evolving regulatory landscape. This includes training on new products, risk management techniques, and applicable banking laws. Well-trained employees are better equipped to identify potential compliance issues and implement internal controls effectively, thereby

strengthening the bank's overall defense against various operational and legal risks.

- 36.** (D) Root cause analysis of the reasons resulting in the stricture.

When a regulator issues a stricture or penalty, the bank must go beyond mere acknowledgement of the error. The concerned functional department is required to perform a thorough root cause analysis to identify why the discrepancy occurred. This analysis is essential for apprising the Board of the underlying issues and the specific corrective measures taken to prevent a recurrence.

- 37.** (D) Competitor bank disclosures

Compliance failures are typically identified through internal and external oversight mechanisms. These include findings from the Inspection and Audit department, regulatory inspections, and reports from business verticals. While competitor activities might influence market trends, their disclosures are not an official or explicitly identified source for detecting a bank's own internal compliance breaches or failures in a formal regulatory context.

- 38.** (C) The senior most Chief Manager of the Compliance Department.

A preliminary inquiry committee for compliance breaches is usually composed of senior officers from the Compliance, Risk, and HR departments. If the designated Assistant General Manager is unavailable, the senior-most Chief Manager from the same department can fill the vacancy. This ensures the committee maintains its expertise and internal authority while investigating potential misconduct by senior functional heads or other staff.

- 39.** (A) 1, 2, 3, 4

The process for addressing compliance breaches follows a logical progression beginning with a fact-finding preliminary inquiry led by the CCO. Based on this report, a formal investigation is initiated and conducted by an authorized officer within fifteen working days. Finally, the findings and recommendations from this investigation are submitted to the Audit Committee of the Board and the MD & CEO.

- 40.** (A) Helping uncover potential concealed fraud or errors in sensitive positions.

Mandatory annual leave for employees in sensitive positions, such as cash management, is a key internal control activity. By requiring a continuous absence, the bank ensures that any ongoing fraudulent activities or hidden errors are more likely to be discovered by the person covering those duties. This practice serves as a powerful deterrent and detection mechanism for internal malpractice or mistakes.

- 41.** (A) 15 working days from receipt of the preliminary inquiry report for the investigation. The formal investigation into a reported compliance breach must be completed within a specific timeframe to ensure timely resolution. Standard procedures require the authorized officer to conclude the investigation within fifteen working days after receiving the preliminary inquiry report. This efficiency is necessary for taking swift corrective actions and reporting significant findings to the bank's senior leadership and the Board.

- 42.** (B) A reaction to financial scandals exposing the fragility of adopted control mechanisms. Historically, the strengthening of internal control and compliance functions has often been a direct response to major financial scandals. These incidents highlighted weaknesses in existing oversight structures, prompting regulators and institutions to reform reporting lines and enhance control mechanisms. This evolution aims to restore public trust and prevent the recurrence of catastrophic failures within the global financial system and individual banks.

- 43.** (A) Both I and II
Show Cause Notices and regulatory penalties represent high reputational and financial risks that must be escalated to the MD & CEO. Simultaneously, the Compliance Department must be advised to ensure oversight of the resolution process. Furthermore, functional departments are required to conduct root cause analyses to inform the Board about the failure and the specific steps taken to rectify it.

- 44.** (C) To facilitate independent and unhindered discussion of compliance functions and issues. Direct, one-on-one meetings between the Chief Compliance Officer and the Audit Committee of the Board are essential for maintaining the independence of the compliance function. These sessions allow for candid discussions about sensitive issues or potential management overrides without the presence of senior executive staff. This governance practice ensures the Board receives an unfiltered assessment of the bank's compliance status and risks.

- 45.** (B) I, II, and IV only

Internal control systems are designed to provide reasonable assurance regarding operational efficiency, the reliability of financial reporting, and compliance with laws and regulations. While they are highly effective, they cannot completely eliminate execution risk. Human factors such as distraction or fatigue mean that even well-designed systems are subject to occasional failures, preventing the complete elimination of all possible operational risks.

- 46.** (C) Ensure the compliance department reports directly to the external statutory auditors. In a standard governance framework, the compliance department reports internally to the bank's management and the Board or its committees, not to external statutory auditors. While the Board ensures a compliance policy is in place and conducts independent reviews, the reporting line remains internal. Statutory auditors are external entities that review the bank's records independently of the compliance department's daily reporting.

- 47.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Even the most sophisticated control systems are vulnerable to execution risk because they ultimately rely on human operation. Personnel may become distracted, tired, or confused, leading to errors in the implementation of these controls. Therefore, while a system may be well-designed in theory, its practical effectiveness is always limited by the potential for human error during its daily execution.

NODIA

efforts remain relevant to current supervisory expectations and standards.

- 16.** (D) To identify, assemble, analyze, classify, record, and report various bank transactions. Within the internal control framework, information and communication systems are responsible for the accurate processing and reporting of all financial transactions. They ensure that data is recorded in the correct period and classified according to accounting standards. Reliable systems are vital for management to monitor performance, meet regulatory requirements, and maintain the integrity of the bank's overall financial statements.

- 17.** (B) To ensure statutory directions are appropriately brought to the notice of the Regulator.

The Chief Compliance Officer acts as the primary link between the bank and the regulator to streamline communication regarding statutory requirements. This role ensures that regulatory directives are correctly understood and implemented within the institution. Having a designated nodal point facilitates a transparent relationship with authorities and helps the bank respond effectively to supervisory queries and reporting mandates.

- 18.** (A) P-3, Q-4, R-1, S-2

Effective internal controls utilize various methods to safeguard assets and ensure reporting accuracy. Approvals require dual signatures for high limits, while segregation of duties keeps custody separate from authorization. Documents are pre-numbered to facilitate monitoring, and independent checks like account reconciliations verify accuracy. These activities work together to form a comprehensive defense against operational errors, mismanagement, and potential fraud.

- 19.** (A) Compliance officers at overseas branches must conduct testing and submit reports at half-yearly intervals.

Compliance officers at overseas branches are generally required to conduct testing and submit reports on a quarterly basis rather than half-yearly. This higher frequency ensures that the Head Office receives timely updates on

regulatory adherence in foreign jurisdictions. Other requirements, such as maintaining updated KYC-AML policies and instant reporting of major issues, remain standard for all overseas banking operations.

- 20.** (A) P-2, Q-3, R-1, S-4

The three lines of defense model structures risk management by assigning specific roles to different units. Business functions act as the first line, while risk management and compliance provide oversight as the second line. Internal audit serves as the third line by providing independent assurance. The Board of Directors acts as the governing body overseeing the entire framework and policy direction.

- 21.** (D) The CCO assumes a purely advisory role in a committee dealing with purchases.

To maintain independence, the Chief Compliance Officer should not have executive or voting powers in committees that handle commercial decisions like purchases or credit sanctions. Participation is restricted to an advisory capacity, focusing on compliance implications without becoming part of the decision-making process. This prevents the officer from being compromised when later auditing those same decisions or internal processes.

- 22.** (C) I and III only

Digital transformation has expanded banking access to millions, but it also necessitates a stronger supervisory approach. Modern supervision aims to strengthen internal defenses rather than weaken them. The primary objective is to enhance the bank's ability to anticipate risks early and take preventive steps. This proactive stance is essential for maintaining stability in a rapidly evolving and technology-driven financial environment.

- 23.** (A) P-1, Q-2, R-3, S-4

Different bank functions carry specific responsibilities to ensure overall governance. Functional heads designate senior officers as compliance representatives, while the CCO serves as the primary regulatory contact. Business Process Re-engineering often convenes product committees to vet new offerings. Meanwhile, the Audit Committee of the Board periodically reviews the performance and status

months after their introduction. This period allows the Product Group Committee to assess whether the product meets compliance risk parameters and operates as intended. This sustained observation helps identify unforeseen operational gaps or regulatory issues early, allowing for necessary adjustments before full-scale expansion into the market.

57. (A) P-4, Q-3, R-2, S-1

Internal control aspects address different operational needs: information systems require contingency plans for failures, and record-keeping must accurately reflect financial conditions. Physical assets are protected through dual control and limited access. Finally, staff education through cross-training ensures that operations can continue smoothly even during personnel absences. Together, these elements provide a comprehensive framework for maintaining institutional stability and security.

58. (B) The BPR or Head Products acts as the convener of the Product Group Committee.

In the domestic setup, the head of Business Process Re-engineering or the Product Head serves as the convener of the committee responsible for vetting new products. This committee ensures that all new offerings are reviewed for compliance and operational risks before launch. The Chief Compliance Officer participates in this process, but typically in an advisory or oversight role rather than as the sole authority.

59. (A) Both I and II

Regulatory expectations suggest that Boards should establish quality assurance programs for their oversight and assurance functions. These programs ensure that the compliance and risk departments are meeting their objectives effectively. Quality assurance may include periodic external assessments to provide an independent view on whether these functions are adhering to policies and delivering the expected outcomes for the institution.

60. (C) A half-yearly report to the MD & CEO assessing the performance appraisal of functional heads.

The Compliance Department is responsible for reporting on regulatory communications and overall compliance risk to the Board and the Audit Committee. However, the performance appraisal of functional heads is generally an HR or administrative function rather than a mandated compliance report. Compliance reporting focuses on the status of adherence to rules and the mitigation of risks across the entire organization.

61. (B) Heightened risk including legal sanctions, business restrictions, and reputational loss.

A weak compliance culture leaves a bank vulnerable to various serious risks. This includes the possibility of legal actions and hefty fines from regulators. Furthermore, it can lead to the imposition of business restrictions that limit growth and a significant loss of reputation in the market. Such failures undermine the stability of the institution and its relationship with stakeholders.

62. (A) 1, 2, 3, 4

Submitting Risk Based Supervision data is a coordinated process that starts with communication with the regulator's supervisory team. Next, data is reviewed for correctness through interactions with functional departments. This data is then vetted by a committee of senior executives to ensure accuracy. Finally, the information is submitted to the regulator in various tranches as per the required schedule.

63. (D) I, II, and III

A preliminary inquiry committee is designed to be multi-disciplinary to ensure a thorough investigation of compliance breaches. Selecting Assistant General Managers from the Compliance, Risk, and Human Resources departments provides the necessary expertise in policy, risk assessment, and personnel matters. This diverse membership ensures that different aspects of the breach are considered during the fact-finding stage before formal investigations begin.

64. (D) Committee for Operational Risk Management - CORM

Proper nomenclature is important in banking governance to ensure consistency. The Committee for Operational Risk Management is abbreviated as CORM. Other common abbreviations include ACB for the Audit Committee of the Board and ACE for the Audit Committee of Executives. Identifying these correctly ensures clear communication and accurate documentation within the bank's complex administrative and reporting structures.

65. (B) I, II, and IV only

The compliance function must be independent of business lines to avoid conflicts, yet maintain a cooperative relationship to ensure practical implementation of rules. It should also have a stature equal to business verticals to ensure its voice is heard at the executive level. While it must be robust, regulatory expectations specify that it should not be outsourced.

66. (C) Only II

Functional departments at the Head Office are responsible for preparing and placing stipulated agendas and review notes before the Board and Audit Committee. However, the timeline for attending to regulatory communications and feedback is typically shorter than fifteen days, often requiring immediate or more urgent attention. Ensuring that the calendar of reviews is strictly followed is a key governance duty.

67. (A) I, II, III, and IV only

The Board of Directors is responsible for high-level governance, such as setting the compliance policy, resolving issues, and preventing conflicts of interest. They may delegate specific tasks to the Audit Committee of the Board for deeper oversight. However, the Board does not conduct daily compliance testing in branches; such operational tasks are handled by field-level officers and the Compliance Department.

68. (A) I, III, and IV only

Compliance functions at regional and zonal levels include reporting to the central office, taking corrective actions for breaches, and maintaining proper documentation. While they report regularly, the standard requirement for

status updates is typically quarterly rather than monthly. These offices serve as critical links in ensuring that the bank's compliance standards are effectively implemented across the entire network.

69. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

The compliance function is central to a bank's integrity and must remain an in-house activity to ensure accountability. Because every staff member is responsible for adhering to statutory provisions, the compliance function must be deeply integrated into the organization. Outsourcing this core duty would weaken the internal culture and distance the responsibility for adherence from the bank's own personnel.

70. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Branch staff are the primary point of service delivery, making them fundamentally responsible for implementing compliance rules. Because business execution happens at the branch, compliance risk is naturally highest at this level. Therefore, managers and officers must prioritize adherence to regulations as they deliver products, as their actions directly determine whether the bank remains compliant with its overall mandates.

71. (B) Report the breaches immediately and ensure that necessary corrective action measures are taken.

When systemic compliance breaches are identified through an audit, the Zonal Manager must take immediate action. This involves reporting the findings to the Head Office and overseeing the implementation of corrective measures across the affected branches. Ignoring the issue until an annual review or taking arbitrary disciplinary actions without inquiry would be inconsistent with standard compliance governance and risk procedures.

72. (A) Definite action.

When a regulator or the Ministry of Finance issues a communication requesting the creation of a new policy or circular, it is classified as requiring definite action. This means the bank

cannot simply note the instruction; it must actively develop and implement the requested policy. Such communications carry high priority and are tracked closely to ensure the bank meets obligations.

- 73.** (A) Using pre-numbered documents to ensure transactions are accurately recorded and monitored.

Using pre-numbered documents is a specific internal control activity that prevents the unauthorized creation or destruction of transaction records. When staff use blank paper instead, they bypass this safeguard, making it difficult to ensure that all transactions are accounted for and monitored. This compromise increases the risk of unrecorded deposits and fraudulent activity, undermining the integrity of reporting.

- 74.** (B) To ensure staff understand compliance laws and their practical impact on bank operations. The Compliance Department requires personnel with specialized knowledge in law, accountancy, and IT to effectively interpret and implement complex regulations. These skills allow the department to assess how various rules will practically impact different areas of the bank's operations. This technical expertise is essential for providing accurate guidance to functional departments and for conducting meaningful compliance testing across business lines.

- 75.** (A) Management Audit of Compliance Department.

A Management Audit is specifically designed to evaluate the internal efficiency and resource adequacy of a department. When the Audit Committee of the Board requests a review of the Compliance Department's staffing levels, they are seeking a qualitative and quantitative assessment of whether the unit can meet its obligations. This differs from financial or IT audits, which focus on assets.

- 76.** (C) It replaces the standard statutory audit of the bank's operational branches.

A Management Audit of the Compliance Department is an internal review focused on the department's own performance and resource adequacy. It is a feedback mechanism for senior management and helps ensure the

quality of regulatory reporting. However, it does not replace the statutory audit, which is an external requirement for verifying the bank's overall financial health and asset quality.

- 77.** (C) 6 months from introduction.

Standard compliance guidelines require that any new product or business process be monitored intensively for a period of six months following its launch. This timeframe is considered sufficient to identify any operational weaknesses, unexpected risks, or failures in adhering to compliance parameters. The Product Group Committee uses this period to ensure the new offering is stable before reducing oversight intensity.

- 78.** (C) The overall impact on the Bank, its clients, and the potential risk of loss of confidence.

When assessing a material compliance failure, the primary focus is on the scale of the damage and the risk of detriment to the institution and its customers. The most critical factor is the potential for the breach to cause a loss of public or regulatory confidence in the bank. This holistic view of impact determines the severity of the failure.

- 79.** (D) Periodic checks on whether jobs are done and recorded amounts are accurate.

Even with automated systems like software-led reconciliations, periodic management reviews remain a necessary internal control. These reviews serve as a check to ensure that the automated systems are functioning correctly and that the recorded amounts are accurate. This human oversight addresses the inherent limitations of technology and ensures that any system errors are detected through independent verification.

- 80.** (A) P-4, Q-2, R-1, S-3

Compliance is categorized into different levels: Level 1 involves external regulatory rules, while Level 2 focuses on internal policies. Data hoarding is defined as the unreasonable withholding of information from those who need it for reporting. Finally, punitive program outputs refer to establishing accountability and healthy operational standards through a system of consequences for various reported compliance breaches.

NODIA

CHAPTER 29

Framework for Identification of Compliance Issues and Compliance Risks

Oct/Nov 2008

1. To resolve severe irregularities in its accounting policies, Regional Bank deploys a team to uncover the root causes rather than just dealing with the immediate symptoms. This process is strictly characterized as an:
(A) Inspection
(B) Audit
(C) Internal Due Diligence
(D) Easing of Regulatory Capital

May/June 2014

2. Which of the following pairs regarding auditing and inspection is incorrectly matched?
(A) Root causes of problems — Audits
(B) Immediate accidents or other problems — Inspections
(C) Compliance function independent review — Conducted by an external marketing agency
(D) Action points for Review — Detect early warning signals and suggest remedial measures

Oct/Nov 2023

3. What does a “compliance issue” specifically signify?
(A) A single event during which any accountable employee is in violation of one or more required processes or procedures.
(B) A long-term systemic failure in managing liquidity risk and capital adequacy ratios across multiple business units.
(C) A process where financial reports are prepared without adhering to standard accounting principles or tax guidelines.
(D) An external regulatory audit that results in a material financial loss or significant loss of reputation for a bank.

May/June 2007

4. Consider the following statements regarding the building of Consumer Trust in banking:
I. The customer-centric business model involves a personalised service experience, mobility between channels, data privacy, and evidence of good corporate citizenship.
II. Personal data protection is no longer a topic of regulation, as data ownership and control are freely traded in the digital era.
(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

Oct/Nov 2016

5. Which of the following defines Market risk?
(A) The risk that a financial institution may run short of funds owing to an extreme gap between maturities in inflow and outflow of funds within the fiscal year.
(B) The inherent risk in the handling of customer transactions, errors, unethical conduct, and disparities between actual cash balances and ledger entries.
(C) The risk leading to losses when customers experience deterioration in financial condition, making it impossible for the bank to recover outstanding claims.
(D) The possibility that banks may incur losses due to movements in interest rates, foreign currency exchange rates, stock prices, and other market-related indicators.

May/June 2021

6. Consider the following statements regarding the scope of a Loan Review:
I. A loan review is a portfolio trend analysis that evaluates the overall opinion of the adequacy of the loan loss reserve.
II. A loan review assesses geographic, borrower, or other concentrations that can

and various codes of conduct including mandatory and voluntary ones.

- (C) The strategic alignment of technological innovations with internal human resource policies and hiring standards.
- (D) The management of customer portfolios to ensure optimal credit risk distribution across diverse industrial sectors.

Oct/Nov 2010

- 43.** Consider the following statements regarding Data Processing in the financial sector:
- I. The quality of data and the way it is used are the most important aspects in the protection of personal or operational information.
 - II. Since breaches in data sharing continue, the expectations for more stringent data privacy and security regulations are increasing at both local and global levels.
- (A) Only I is correct
 - (B) Only II is correct
 - (C) Both I and II are correct
 - (D) Neither I nor II is correct

May/June 2014

- 44.** How is “Compliance risk” generally defined in a banking and financial environment?
- (A) The probability of loss remaining in systems that store, process, or transmit information after all internal security measures and protocols have been implemented.
 - (B) The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external operational events that impact banking continuity.
 - (C) The risk of legal or regulatory sanctions, financial loss, or reputational damage a bank suffers due to failure to comply with laws, regulations, and codes.
 - (D) The possibility that banks may incur losses due to movements in interest rates, foreign currency exchange rates, and stock prices in the global market.

Oct/Nov 2023

- 45.** Consider the following statements regarding Operations Risk:
- I. Operations risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or

from external events.

- II. The definition of operations risk includes legal risk but excludes strategic and reputational risk.
- (A) Only I is correct
 - (B) Only II is correct
 - (C) Both I and II are correct
 - (D) Neither I nor II is correct

May/June 2007

- 46.** How frequently must the quality assurance and improvement program covering all aspects of the compliance function be subject to an independent external review?
- (A) At least once every year
 - (B) At least once in two years
 - (C) At least once in three years
 - (D) At least once in five years

Oct/Nov 2016

- 47.** Consider the following statements regarding the compliance challenges in the present-day BFSI (Banking, Financial Services, and Insurance) sector:
- I. Fast-moving changes include the Payment & Settlement system, banking products and processes, and delivery systems.
 - II. The challenges of regulatory compliance will require outdated technology and rigid, user-unfriendly strategies.
 - III. Concepts like geopolitical protectionism and divergence in regulatory obligations are significant topics to be tackled effectively.

Which of the above statements are correct?

- (A) I and II
- (B) II and III
- (C) I and III
- (D) I, II, and III

May/June 2021

- 48.** Under the compliance risk score scale of 1–10, what does a score of 5.1–7 indicate?
- (A) Needs significant improvement
 - (B) Needs improvement
 - (C) Meets requirement
 - (D) Well controlled

Oct/Nov 2008

- 49.** Consider the following points regarding the Scope and Coverage of a Credit Audit:
- I. Portfolio Review to examine the quality of

May/June 2023

14. Consider the following key components of an effective audit programme for a successful compliance policy:
- I. Having an appropriate policy for the institution's risk profile.
 - II. Covering all applicable regulations and guidance.
 - III. Having significant gaps in the program to allow flexible transaction testing.
 - IV. Tracking corrective action and communicating results to the Board of Directors.
- Which of the above statements are correct?
- (A) I, II, and III
 - (B) I, II, and IV
 - (C) II, III, and IV
 - (D) I, III, and IV

Oct/Nov 2014

15. Which of the following statements correctly describes the "New product approval process" regarding compliance risk?
- (A) Appropriate risk mitigants must be placed immediately after launching the new products.
 - (B) The process is designed exclusively to assess the market profitability of introduced products.
 - (C) The Board of Directors evaluates product compliance risk independently of the Compliance department.
 - (D) The Compliance officer shall be a member of the "New product approval Committee" of the Bank.

May/June 2019

16. Consider the following details regarding the complete risk management function within a bank:
- I. On a proactive basis, identifying, documenting, and assessing the compliance risks associated with the bank's business activities.
 - II. Assisting and advising all committees on operations-related integrity and reputational issues.
 - III. Dealing with and leading investigations into issues of conflict of interest, alleged corruption, and money laundering.
 - IV. Completely outsourcing compliance risk measurements to enhance compliance

assessment.

Which of the above statements are correct?

- (A) I, II, and III
- (B) I, II, and IV
- (C) II, III, and IV
- (D) I, III, and IV

Oct/Nov 2018

17. Which statement is correct regarding the procedure to be followed for a Credit Audit?
- (A) Credit audit is conducted remotely from the administrative controlling office.
 - (B) Report on the conduct of accounts of all allocated limits is done by calling for the conduct reports from the corresponding branches.
 - (C) Credit auditors are required to physically inspect all borrowers' premises and establishments.
 - (D) The audit is conducted exclusively at the Head Office where the central credit limits are finalized.

May/June 2016

18. Consider the following aspects evaluated in a thorough Loan Review as per a standard mechanism checklist:
- I. Credit Initiation.
 - II. Loan Structuring.
 - III. Loan Approval Procedures.
 - IV. Normal Loan Monitoring.
 - V. Problem Loan Management.
- Which of the above statements are correct?
- (A) I, II, III, and IV
 - (B) I, III, IV, and V
 - (C) II, III, IV, and V
 - (D) I, II, III, IV, and V

Oct/Nov 2009

19. Which statement regarding the reporting of breaches and non-compliances is incorrect?
- (A) Breaches can only be reported on the basis of reporting by the branches and not by Regional or Zonal Office officials.
 - (B) Breaches should be reported in a structured format as approved via compliance policy.
 - (C) Functional departments at the Central office shall report non-compliance observed by them to the Chief Compliance Officer.
 - (D) The audit department should provide a copy of its report on breaches observed during the branch audit to the controlling

increase portfolio risk.

- (A) Only I is correct
- (B) Only II is correct
- (C) Both I and II are correct
- (D) Neither I nor II is correct

Oct/Nov 2010

7. What is the mathematical function representing Inherent Risk?
- (A) Inherent Risk = Threats $\times$ Control Risk
 - (B) Inherent Risk = Threats $\times$ Vulnerability
 - (C) Inherent Risk = Residual Risk $\times$ Control Risk
 - (D) Inherent Risk = Vulnerability $\times$ Probability

May/June 2005

8. Consider the following essential ingredients of due diligence within a compliance framework:
- I. Real commitment to compliance and a proactive culture in the business that is not just about lip service.
 - II. Making sufficient resources available and ensuring the system is actually working through audits and monitoring.
 - III. Ignoring outsourcing and contractual obligations to focus entirely on internal corporate governance.
- Which of the above statements are correct?
- (A) I and II
 - (B) II and III
 - (C) I and III
 - (D) I, II, and III

Oct/Nov 2025

9. In a standard regulatory framework for banking audits, how many distinct types of audits are explicitly recognized?
- (A) 6
 - (B) 8
 - (C) 10
 - (D) 12

May/June 2012

10. Consider the following objectives of a Credit Audit:
- I. Improvement in the quality of the credit portfolio.
 - II. Picking up early warning signals and suggesting remedial measures.
 - III. Independent review of Credit Risk assessment.

Which of the above statements are correct?

- (A) I and II
- (B) II and III
- (C) I and III
- (D) I, II, and III

Oct/Nov 2019

11. The strategic concept to “merge the diverge” primarily involves:
- (A) Understanding and embracing the divergent nature of regulations resulting from local and global needs.
 - (B) Integrating legacy accounting systems with newly adopted financial technology and mobile banking applications.
 - (C) Consolidating retail and corporate lending portfolios to mitigate overarching credit risks in volatile markets.
 - (D) Blending internal control operations with outsourced third-party compliance services to reduce operational costs.

May/June 2009

12. Consider the following areas identified as main points of divergence in global financial regulation:
- I. Cybersecurity, data privacy regulation, and servicing of loans.
 - II. Special regulatory and supervisory expectations deviating from global standards.
 - III. Innovative technological applications where new regulations may emerge.
 - IV. Alignment with non-financial services and statutory regulators.
- Which of the above statements are correct?

- (A) I, II, and III
- (B) I, III, and IV
- (C) II, III, and IV
- (D) I, II, III, and IV

Oct/Nov 2006

13. Being able to demonstrate that an organization had been sufficiently active in meeting its obligations through developing, implementing, and maintaining a management system reflects the concept of:
- (A) Credit Analysis
 - (B) Due Diligence
 - (C) Action Points for Review
 - (D) Portfolio Review

Oct/Nov 2022

25. A system of independent testing of existing policies and procedures must be conducted. Which of the following is NOT an area or activity to be tested?
- (A) Profitability forecasting of new delivery channels
 - (B) Adequacy of High Risk Customer identification
 - (C) Cash aggregation and ATM transactions tracking and monitoring corrective actions
 - (D) Investigation and suspicious activity monitoring process

May/June 2008

26. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the options given below:
 Assertion (A): A loan review assesses loan quality at a specific point in time called the focal date.
 Reason (R): A loan review evaluates risk grades and their accuracy for banks that process and risk-rate their loans.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2011

27. Which of the following best describes "Operational risk"?
- (A) The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, excluding strategic and reputational risk.
 - (B) The probability of loss remaining after system security measures are bypassed by external actors or unauthorized internal personnel during a breach.
 - (C) The possibility of losses due to movements in foreign currency exchange rates and stock prices that impact the bank's overall capital reserves.

- (D) The risk to a company in the absence of any security controls or proactive actions taken to mitigate data loss or hardware failures in the data center.

May/June 2015

28. Following the compliance risk assessment mentioned in the scenario, Global Bank Ltd. prepares a plan to mitigate the identified risks. Which of the following actions is the correct step for the bank to take regarding the activity plan?
- (A) Conceal the activity plan from internal audit and top management to prevent any departmental interference with the findings.
 - (B) Wait for external regulators to draft the compliance plan independently before presenting it to the internal board for review.
 - (C) Submit the risk-oriented activity plan to the Audit Committee of the Board (ACB) for approval and make it available to the internal audit.
 - (D) Only communicate the plan verbally to frontline staff without documenting it in any formal report or electronic banking ledger.

Oct/Nov 2013

29. What is the most appropriate definition of "Residual Risk"?
- (A) The raw risk that a system poses before any technologies, security protocols, or trained people are put in place to mitigate potential threats.
 - (B) The probability of loss that remains to systems that store, process, or transmit information after security measures or controls have been implemented.
 - (C) The operational exposure arising directly from human resources management processes and outsourced third-party service providers and vendors.
 - (D) The financial risk associated with a decline in creditworthiness creating an extreme gap in fund maturities and overall institutional liquidity levels.

May/June 2020

30. During the Credit Audit Department's activities at Apex Bank, the department

initiated a review for its high-risk corporate accounts. Evaluating the initial underwriting, analyzing the primary and secondary sources of repayment, and scrutinizing the borrower's financial statements corresponds to which part of the checklist?

- (A) Normal Loan Monitoring
- (B) Loan Approval Procedures
- (C) Credit Initiation
- (D) Loan Workout Management

Oct/Nov 2015

31. As regulations shift focus toward the technology sector, what is the most significant responsibility firms must bear regarding the "Agility of Compliance Operations"?

- (A) Delegating consumer protection and data security completely to autonomous AI and cloud systems to reduce the need for manual oversight.
- (B) Reducing the speed of change within the organization to stabilize compliance processes and maintain a traditional regulatory environment.
- (C) Replacing legal compliance frameworks entirely with self-regulatory organizational standards that prioritize internal profitability over external rules.
- (D) Understanding technological applications and their outcomes, alongside addressing privacy, accessibility, and prejudice risks.

May/June 2010

32. Since the corporate accounts currently under review by Apex Bank are classified as high-risk accounts, what should be the targeted frequency of this review based on the magnitude of risk?

- (A) 3 months
- (B) 6 months
- (C) 1 year
- (D) 3 years

Oct/Nov 2021

33. Based on the results of a Compliance Risk assessment, a mitigation plan is prepared. Arrange the following associated actions in the correct sequence:

- I. Report promptly to the Board/ACB/MD & CEO about any major changes/observations relating to the compliance risk.

II. Conduct assessment of the compliance risk activity-wise and develop a risk-oriented activity plan.

III. Examine sustenance of compliance as an integral part of compliance testing and annual compliance assessment exercise.

IV. Periodically report on compliance failures/breaches to the Board/ACB and circulating to the concerned functional heads.

- (A) II, I, IV, III
- (B) I, II, III, IV
- (C) II, IV, I, III
- (D) I, III, II, IV

May/June 2013

34. In assessing the raw vulnerability of its systems, FinSecure Bank utilizes a standard mathematical relationship. What is the correct formula representing the risk the bank is evaluating?

- (A) Residual Risk = Control Risk × Vulnerability
- (B) Control Risk = Inherent Risk × Threats
- (C) Inherent Risk = Threats × Vulnerability
- (D) Inherent Risk = Residual Risk × Threats

Oct/Nov 2005

35. Match the types of inherent risks in List I with their basic policies or descriptions in List II.

List I: Type of Risk

- P. Credit risk
- Q. Market risk
- R. Liquidity risk
- S. Operations risk

List II: Description

1. Risk of running short of funds owing to an extreme gap in maturities in inflow and outflow.
2. Risk inherent in handling of customer transactions, errors, unethical conduct, and disparities in actual cash balances.
3. Possibility of incurring losses due to movements in interest rates and foreign currency exchange rates.
4. Risk leading to losses when customers experience deterioration in financial condition, making recovery of principal impossible.

- (A) P-4, Q-3, R-1, S-2
- (B) P-1, Q-4, R-2, S-3

- (C) P-3, Q-1, R-4, S-2
(D) P-2, Q-3, R-1, S-4

May/June 2017

- 36.** What is the correct periodicity for Mr. Sharma to submit his compliance status certificate to the Regional or Zonal Office at Zenith Bank?
- (A) Monthly within 5 days of completion of the month to the administrative controlling office in the region.
(B) Quarterly within 10 days of closure of the quarter to the functional heads at the central bank office.
(C) Annually on the last working day of the financial year to the executive directors and the chief auditor.
(D) Quarterly as on the last working day of the quarter within 5 days of closure of the quarter.

Oct/Nov 2017

- 37.** Match the magnitude of risk for accounts in List I with the suggested frequency of review in List II.

List I: Account Risk Level

- P. High risk accounts
Q. Average risk accounts
R. Low risk accounts
S. Quality assurance external review

List II: Frequency of Review

1. 6 months
2. At least once in three years
3. 3 months
4. 1 year

- (A) P-2, Q-3, R-1, S-4
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2024

- 38.** A Regional Office or Zonal Office official conducts a random visit to Mr. Sharma's branch and observes several non-compliances. According to Zenith Bank's reporting of breaches policy, how should this non-compliance be handled?
- (A) It must be ignored unless the branch reports it directly through the official monthly certification process.
(B) It must be escalated exclusively to the external auditor without any internal reporting to the bank board.

- (C) It should be reported in the structured format per the compliance policy and sent to the Compliance department.
(D) It should be recorded as a system risk and mitigated locally without any formal reporting to the head office.

Oct/Nov 2012

- 39.** Which of the following pairs correctly matches the independent testing resource with its description?
- (A) Head office audit — Independent audit Function within the Institution
(B) Head office audit — Foreign Financial Institutions
(C) Outside audit firm — Staff performing the testing
(D) Independent audit Function — Specialised training

May/June 2025

- 40.** During the GRC integration, Regional Bank identifies areas of redundancy and inefficiency, which allows its financial and human capital to be assigned more effectively across departments. This scenario exemplifies which benefit?
- (A) Better capital allocation
(B) Process optimisation
(C) Reduced costs
(D) Improved effectiveness

Oct/Nov 2020

- 41.** Which of the following pairs regarding the fundamental pillars of a bank's credit risk management systems is incorrectly matched?
- (A) Market risk basic policy — Focuses exclusively on loan repayment defaults
(B) Credit rating system — Ranking its customers
(C) Self-assessment system — Quantifying credit risk
(D) Credit analysis systems — Setting various lending policies

May/June 2006

- 42.** How is compliance defined in the context of a banking and financial system?
- (A) The process of maximizing operational profitability while minimizing external regulatory interactions via tax shielding.
(B) The act of following laws, rules, regulations,

May/June 2023

56. Which of the following statements correctly differentiates between an audit and an inspection?
- (A) Inspections focus on immediate hazards or accidents, while audits address the underlying root causes of these organizational problems.
 - (B) Audits deal with things that can cause immediate accidents, while inspections cover the root causes of systemic management problems.
 - (C) Inspections are limited to technological assessments, while audits focus exclusively on the evaluation of human resource performance.
 - (D) Audits are required to be done daily as a compliance obligation, while inspections are conducted annually for regulatory reporting.

Oct/Nov 2014

57. Consider the following elements that form part of the functions of a Credit Audit Department:
- I. Processing Credit Audit Reports.
 - II. Analysing Credit Audit findings and advising the departments or functionaries concerned.
 - III. Following up with controlling authorities.
 - IV. Apprising Top Management.
 - V. Processing the responses received and arranging for closure of the relative Credit Audit Reports.
- Which of the above statements are correct?
- (A) I, II, III, and IV
 - (B) II, III, IV, and V
 - (C) I, III, IV, and V
 - (D) I, II, III, IV, and V

May/June 2019

58. Which of the following statements regarding Liquidity risk is incorrect?
- (A) Liquidity risk is the risk that a financial institution may run short of funds owing to an extreme gap in maturities.
 - (B) In the event of a sudden change in funding environment, banks rely entirely on government bailouts as they do not maintain contingency plans.
 - (C) Financial institutions may have to pay prohibitively high interest rates to bridge

the funding gap during periods of high market volatility.

- (D) The bank periodically examines the structure of fund sources and uses to manage liquidity risk and ensure sufficient cash flow for daily operations.

Oct/Nov 2018

59. Consider the following factors that should be considered for an efficient and effective compliance policy when they have changed since the prior audit:
- I. Changes to the organisation's risk profile.
 - II. Changes in the compliance function.
 - III. New regulations introduced.
 - IV. Information Technology enhancements introduced.
 - V. Changes in monitoring parameters.
- Which of the above statements are correct?
- (A) I, II, III, and IV
 - (B) II, III, IV, and V
 - (C) I, III, IV, and V
 - (D) I, II, III, IV, and V

May/June 2016

60. Which of the following statements regarding the characteristics of a Loan Review is incorrect?
- (A) A loan review is not a portfolio review assessing geographic or borrower concentrations.
 - (B) A loan review is not a portfolio trend analysis, though trends for a specific industry may be detected.
 - (C) A loan review does not assess loan quality at a specific point in time called the focal date.
 - (D) A loan review does not provide an overall opinion of the adequacy of the loan loss reserve.

Oct/Nov 2009

61. Consider the following points under the "Action points for Review" within the Scope and Coverage of a Credit Audit:
- I. Verify compliance with the bank's laid down policies and regulatory compliance with regard to sanctions.
 - II. Examine adequacy of documentation.
 - III. Conduct the credit risk assessment.
 - IV. Examine the conduct of the account and follow up with frontline functionaries.

Credit & Investment portfolio and suggest measures for improvement.

- II. Loan Review of the sanction process and status of post-sanction processes, strictly restricted to large accounts only.
- III. Action points for Review including verifying compliance with the bank's laid down policies and examining adequacy of documentation.

Which of the above statements are correct?

- (A) I and II
- (B) I and III
- (C) II and III
- (D) I, II, and III

May/June 2012

50. Which concept expects banks to operate an integrated approach including continuity planning, operational risk, and concentration risk analysis to manage disruptions and adapt to changing environments?
- (A) Data Processing Governance
 - (B) Systems Risk Management
 - (C) Operational Resilience
 - (D) Agility of Compliance Operations

Oct/Nov 2025

51. Consider the following operational advantages and indicators of compliance program effectiveness:
- I. An aligned operating strategy.
 - II. Streamlined business processes.
 - III. Effective oversight mechanisms and optimization of resources and personnel.
- Which of the above statements are correct?
- (A) I and II
 - (B) II and III
 - (C) I and III
 - (D) I, II, and III

May/June 2005

52. What does the concept of risk that a system poses "out of the box," before any processes, technologies, or people are put in place, refer to?
- (A) Residual risk
 - (B) Systems risk
 - (C) Operations risk
 - (D) Inherent risk

Oct/Nov 2019

53. Consider the following parameters used to identify the level of Compliance Risk in business lines, products, and processes:
- I. Regulatory focus.
 - II. Customer service aspects.
 - III. Control aspects.
 - IV. Bank's exposure to the risk (materiality).
- Which of the above statements are correct?
- (A) I, II, and III
 - (B) I, III, and IV
 - (C) II, III, and IV
 - (D) I, II, III, and IV

May/June 2009

54. Which of the following statements regarding the Compliance Risk Management Function is correct?
- (A) Historically, the compliance function was proactive and effectively predicted emerging compliance and ethics risk issues within the industry.
 - (B) The present-day approach is primarily reactive, focusing on responding to immediate crises instead of conducting ongoing due diligence.
 - (C) The Head of the Internal Audit & Compliance department shall lead investigations into alleged unsatisfactory conduct of Bank employees.
 - (D) Due diligence is best proven when internal systems are strictly legalistic and prioritize administrative process over functional results.

Oct/Nov 2006

55. Consider the following parameters to be kept in mind while selecting the sample size for Test Checking on a Random Basis:
- I. Regulatory focus.
 - II. Whether the activity inherently has high risk.
 - III. Whether any major breaches were reported in the past.
 - IV. Care should be taken to ensure that branches in the sample are repeated each time.
- Which of the above statements are correct?
- (A) I, II, and III
 - (B) I, II, and IV
 - (C) II, III, and IV
 - (D) I, III, and IV

Regional office.

May/June 2011

20. Consider the following principles of compliance management regarding the compliance function:

- I. It shall be independent and sufficiently resourced.
- II. It shall be clear in its defined responsibilities.
- III. It shall be subject to periodic and independent review by the internal audit function.
- IV. It shall be regarded as a Core Risk management activity within the bank.
- V. It shall be outsourced fully to an external third-party agency to maintain transparency.

Which of the above statements are correct?

- (A) I, II, III, and IV
- (B) I, II, IV, and V
- (C) II, III, IV, and V
- (D) I, III, IV, and V

Oct/Nov 2024

21. Which of the following statements about Systems risk is incorrect?

- (A) Systems risk is inherent in computer systems owing to malfunctions, technical errors, and various forms of unethical conduct.
- (B) Systems risk may have a significant impact on society at large for financial institutions that are highly dependent on these systems.
- (C) Specific measures for managing systems risk include backup computer centres and redundant lines to prevent catastrophic systems failures.
- (D) The bank regards the management of systems risk as simply a systemic or technological issue rather than a form of management risk.

May/June 2022

22. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the options given below:

Assertion (A): Market risk is defined to include credit risk inherent in market transactions.

Reason (R): Counterparties may fail to meet their obligations during market transactions, leading to losses.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2007

23. Financial institutions should learn from previous credit cycles to prevent potential risks. Which of the following is NOT one of these risks?

- (A) Risk layering and leveraged lending
- (B) Decreasing risks arising out of Climate Change and air pollution
- (C) Expanded delivery channels and payment options
- (D) Disclosures via securities or lending to non-depository institutions

May/June 2018

24. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the options given below:

Assertion (A): The emergence of low morale, failure to communicate, and cynicism among staff members should be regarded as indicative of a potential increase in operational risk.

Reason (R): Operational risk solely arises from external events such as power failures, floods, or terrorist attacks.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

V. Detect early warning signals and suggest remedial measures.

Which of the above statements are correct?

- (A) I, II, III, and IV
- (B) II, III, IV, and V
- (C) I, III, IV, and V
- (D) I, II, III, IV, and V

May/June 2011

- 62.** Which of the following is NOT listed as a main area of divergence in regulation?
- (A) Cybersecurity and data privacy regulation across various jurisdictions.
 - (B) Innovative technological applications where new regulations may emerge soon.
 - (C) Standardization of mandatory commercial interest rates across global central banks.
 - (D) Special regulatory and supervisory expectations deviating from global standards.

Oct/Nov 2024

- 63.** The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the options given below:
- Assertion (A): The compliance function within a bank can be entirely outsourced to expert third-party service providers to ensure cost optimization.
- Reason (R): The compliance function is one of the key elements in the bank's Corporate Governance Structure.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

May/June 2022

- 64.** Which of the following is NOT an essential ingredient of due diligence?
- (A) Real commitment to compliance
 - (B) Full and effective reporting and action on reports
 - (C) Consistent and effective enforcement

through disciplinary and corrective action
(D) Culture in the business that is just about lip service

Oct/Nov 2007

- 65.** The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the options given below:
- Assertion (A): Implementing controls, such as looking left and right to check for oncoming traffic before crossing a street, completely eliminates every possible risk.
- Reason (R): Residual risk is the probability of loss that remains to systems after security measures or controls have been implemented.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

May/June 2018

- 66.** Which of the following is NOT highlighted as a benefit of good compliance or an indicator of compliance program effectiveness?
- (A) An aligned operating strategy
 - (B) Streamlined business processes
 - (C) Accelerated turnover of staff to ensure agility
 - (D) Better capital allocation through identification of redundancy

Oct/Nov 2022

- 67.** The following questions are based on the scenario of Global Bank Ltd., which recently conducted an annual compliance risk assessment activity. The evaluation team analyzed regulatory examination reports and compliance testing results. Upon final tabulation, the bank's compliance risk score was determined to be 6.5. Based on this assessed score, what is the corresponding Compliance Risk Level for Global Bank Ltd.?
- (A) Needs improvement
 - (B) Needs significant improvement

NODIA

that policies are functioning as intended. Simply paying lip service or ignoring contractual obligations and outsourcing risks undermines the integrity of the compliance system and increases the institution's overall exposure.

9. (C) 10

In a standard regulatory framework for banking, ten distinct types of audits are explicitly recognized to ensure comprehensive oversight of operations. These include various specialized reviews such as credit, operational, and information technology audits, among others. Each type focuses on a different aspect of the bank's activities to mitigate risk and ensure adherence to statutory and internal guidelines.

10. (D) I, II, and III

Credit audits are essential for maintaining a healthy loan portfolio by identifying early warning signals and suggesting remedial measures. They provide an independent review of credit risk assessments to improve the overall quality of lending. All these objectives work together to ensure that the bank's credit operations remain robust, compliant with internal policies, and resilient against potential borrower defaults.

11. (A) Understanding and embracing the divergent nature of regulations resulting from local and global needs.

The phrase to merge the diverge refers to a strategic approach where organizations understand and embrace the differences in global and local regulations. Rather than viewing divergent rules as obstacles, firms aim to integrate these varying requirements into a cohesive compliance framework. This strategy helps navigate complex regulatory landscapes while maintaining operational consistency across different jurisdictions and international markets.

12. (D) I, II, III, and IV

Divergence in global financial regulation often occurs in areas such as cybersecurity, data privacy, and the servicing of loans. Additionally, special supervisory expectations and innovative technological applications create unique regulatory challenges. Aligning with non-financial services and statutory regulators is

also essential. All these components reflect the complex, evolving nature of compliance across different jurisdictions in the modern financial sector.

13. (B) Due Diligence

Due diligence is demonstrated when an organization actively meets its obligations through the development and maintenance of a robust management system. This concept involves more than just setting policies; it requires proving that the system is implemented and functioning effectively. It serves as evidence of the institution's commitment to compliance and protects against legal sanctions and reputational damage.

14. (B) I, II, and IV

An effective audit programme must have policies aligned with the institution's risk profile and cover all relevant regulations. It should also track corrective actions and communicate results to the Board of Directors. Having significant gaps to allow flexible testing is incorrect, as a comprehensive program requires thorough coverage to ensure all compliance risks are identified and managed effectively.

15. (D) The Compliance officer shall be a member of the "New product approval Committee" of the Bank.

The new product approval process is a vital component of managing compliance risk within a bank. To ensure that all regulatory and legal implications are considered before a launch, the Compliance officer must be an active member of the committee. This involvement allows for the proactive identification of potential risks and the implementation of necessary mitigants prior to product introduction.

16. (A) I, II, and III

A complete risk management function involves proactively identifying and assessing compliance risks while advising committees on integrity and reputational issues. It also includes leading investigations into conflicts of interest and corruption. However, completely outsourcing these core measurements is not a recommended practice. Effective risk management requires an internal team to maintain accountability and deep organizational knowledge.

May/June 2010

74. Match the Compliance Risk Score in List I with the corresponding Compliance Risk Level in List II.

List I: Compliance Risk Score

P. 7.1–10

Q. 5.1–7

R. 3.1–5

S. 1–3

List II: Compliance Risk Level

1. Well controlled
 2. Meets requirement
 3. Needs improvement
 4. Needs significant improvement
- (A) P-2, Q-3, R-1, S-4
 (B) P-4, Q-3, R-2, S-1
 (C) P-3, Q-1, R-4, S-2
 (D) P-1, Q-4, R-2, S-3

Oct/Nov 2021

75. After the installation of backup computer centers and multiple telecommunications lines, FinSecure Bank calculates the probability of loss that still remains. How is this post-implementation risk mathematically defined?
- (A) Residual Risk = Inherent Risk $\times$ Control Risk
 (B) Residual Risk = Vulnerability $\times$ Threats
 (C) Control Risk = Residual Risk $\times$ Inherent Risk
 (D) Systems Risk = Control Risk $\times$ Vulnerability

May/June 2013

76. Match the components of the Model Loan Review Mechanism Checklist in List I with their focus areas in List II.

List I: Component

P. Credit Initiation

Q. Loan Structuring

R. Credit/Collateral File Documentation

S. Normal Loan Monitoring

List II: Focus Area

1. Evaluation of repayment terms against the borrower's ability to repay and industry best practices.
2. Verification of all relevant initial and ongoing documentation, and review of post-closing procedures.
3. Eligibility, review of initial underwriting including analysis of financial statements.
4. Verification of ongoing monitoring, as

appropriate.

- (A) P-1, Q-4, R-2, S-3
 (B) P-3, Q-1, R-2, S-4
 (C) P-4, Q-2, R-3, S-1
 (D) P-2, Q-3, R-1, S-4

Oct/Nov 2005

77. Zenith Bank's London centre, an overseas branch, submits its certificate confirming compliance with local UK laws. To whom must a copy of this certificate be sent alongside the Compliance Department and the Chief Executive of the Centre?
- (A) Functional Department HO
 (B) International Dept H.O.
 (C) Risk Officer at ZO
 (D) Central Bank Inspectorate

May/June 2017

78. Match the GRC benefits in List I with their outcomes in List II.

List I: GRC Benefit

P. Higher quality information

Q. Process optimisation

R. Better capital allocation

S. Reduced costs

List II: Outcome

1. Identification of areas of redundancy and inefficiency allows financial and human capital to be allocated more effectively.
 2. Lower costs contribute to the overall Return on Investments (ROI) gains represented by effective GRC activities.
 3. Integrating GRC information allows management to make intelligent decisions more rapidly.
 4. Non-value-added activities are eliminated and value-added activities are streamlined to reduce lag time.
- (A) P-3, Q-4, R-1, S-2
 (B) P-1, Q-4, R-2, S-3
 (C) P-4, Q-2, R-3, S-1
 (D) P-2, Q-3, R-1, S-4

Oct/Nov 2017

79. Regional Bank is integrating GRC activities to convince management of its operational advantages. The bank actively eliminates non-value-added activities and streamlines value-added activities. This specific action aims to achieve which GRC benefit?
- (A) Higher quality information

- (C) Meets requirement
- (D) Well controlled

May/June 2008

68. What is the most appropriate description of the primary function of a "Loan Review"?
- (A) To provide an overall opinion of the adequacy of the entire loan loss reserve on an annual basis to satisfy external regulatory requirements.
 - (B) To act as a portfolio review that focuses exclusively on identifying geographic and borrower concentrations within the domestic market segments.
 - (C) To automatically restructure repayment terms for all chronically delinquent corporate loans to improve the bank's non-performing asset ratio.
 - (D) To evaluate risk grades, assess individual loans including repayment risks, and determine compliance with lending procedures.

Oct/Nov 2011

69. To assure the sustained quality of its compliance function, Global Bank Ltd. maintains a quality assurance and improvement program. According to general regulatory expectations, how frequently must this program be subjected to an independent external review?
- (A) At least once every business month
 - (B) At least once during every fiscal year
 - (C) At least once in every five years
 - (D) At least once in every three years

May/June 2015

70. What is the most appropriate justification for integrating Governance, Risk, and Compliance (GRC) information?
- (A) It strictly fulfills regulatory requirements and reporting obligations without affecting the standard business processes or operational workflows.
 - (B) It redirects legal drivers to completely replace traditional credit risk management procedures and standardized loan approval mechanisms.
 - (C) It allows management to make intelligent decisions more rapidly by eliminating non-value-added activities and optimizing resources.
 - (D) It guarantees the absolute elimination of

both inherent and residual risks across all operational platforms and digital banking services.

Oct/Nov 2013

71. During Apex Bank's loan review, a debate arises about assessing the geographic concentration of the bank's overall lending portfolio. Based on the defined nature of a Loan Review, which of the following accurately resolves this debate?
- (A) A loan review is identical to a portfolio review and must assess all geographic concentrations in the region.
 - (B) Unlike a portfolio review, a loan review does not assess geographic concentrations that increase portfolio risk.
 - (C) Geographic concentration is solely evaluated under problem loan management and secondary workout processes.
 - (D) A loan review evaluates overall loan loss reserves instead of focusing on individual geographies or sectors.

May/June 2020

72. Arrange the following steps in the procedure for a Credit Audit in the correct chronological order:
- I. Credit auditors are not required to visit/physically inspect borrowers' premises/establishments.
 - II. Credit audit is conducted on site, i.e., at the branch which has appraised the advance.
 - III. Report on conduct of accounts of all allocated limits by calling for the conduct reports from the corresponding branches.
- (A) I, II, III
 - (B) II, I, III
 - (C) II, III, I
 - (D) III, II, I

Oct/Nov 2015

73. FinSecure Bank is evaluating its technological risks and security protocols. The bank evaluates the raw risk associated with potential cyber-attacks before applying any security protocols. This pre-control risk is best described as:
- (A) Inherent risk
 - (B) Residual risk
 - (C) Market risk
 - (D) Control risk

ANSWERS

1. (B) Audit

An audit is fundamentally designed to identify and address the underlying root causes of systemic management problems rather than focusing on immediate symptoms. Unlike a basic inspection, which typically reacts to specific incidents or hazards, an audit provides a comprehensive evaluation of internal controls and procedures. This process ensures long-term resolution of irregularities within the accounting framework.

2. (C) Compliance function independent review — Conducted by an external marketing agency

Audits and inspections serve distinct purposes within a bank's risk management framework. Audits investigate root causes, while inspections address immediate problems. However, the compliance function review must be independent and is typically handled internally by dedicated compliance departments or specialized audit teams. Relying on an external marketing agency for such a critical independent review is factually incorrect and inappropriate.

3. (A) A single event during which any accountable employee is in violation of one or more required processes or procedures.

A compliance issue denotes a specific occurrence where an employee fails to follow established processes or procedures. It is a discrete event of non-conformity rather than a broad systemic failure. Such issues indicate localized lapses in adhering to the internal or external regulatory requirements that govern daily operations. Addressing these instances is crucial for maintaining the bank's integrity.

4. (A) Only I is correct

Building consumer trust requires a customer-centric business model that emphasizes personalized service, data privacy, and corporate citizenship. Effective data protection is a critical regulatory priority in the digital age, contrary to the idea that it is no longer regulated. Firms must demonstrate high standards of data ownership and control to

maintain reputation and comply with evolving global privacy laws.

5. (D) The possibility that banks may incur losses due to movements in interest rates, foreign currency exchange rates, stock prices, and other market-related indicators.

Market risk involves the potential for financial loss arising from fluctuations in interest rates, foreign exchange rates, stock prices, and other market indicators. It differs from credit risk as it focuses on market volatility rather than individual borrower defaults. Institutions must monitor these variables closely to protect their capital reserves and ensure stability against unpredictable movements in the global economy.

6. (D) Neither I nor II is correct

A loan review is a specific assessment of individual loan quality and compliance with lending procedures at a certain point in time. It is distinct from a portfolio review, which analyzes broader trends, geographic concentrations, or the overall adequacy of loan loss reserves. Therefore, both statements describing the scope of a loan review in the provided context are incorrect.

7. (B) Inherent Risk = Threats × Vulnerability

Inherent risk represents the raw exposure an organization faces before any internal controls or security measures are implemented. It is mathematically calculated by multiplying the potential threats by the existing vulnerabilities within the system. Understanding this baseline risk allows financial institutions to determine the level of control necessary to bring the remaining exposure down to an acceptable residual level.

8. (A) I and II

Effective due diligence within a compliance framework requires a genuine commitment from management and a proactive corporate culture. It involves allocating sufficient resources and implementing monitoring systems to ensure

- (B) Better capital allocation
- (C) Protected reputation
- (D) Process optimisation

May/June 2024

80. Which of the following pairs regarding the framework for test checking on a random basis is correct?
- (A) Selection of sample size — Based solely on expected profit margins
 - (B) Branches in the sample — Care should be taken to ensure they are repeated each time
 - (C) Major breaches — Omitted if they were reported in the past
 - (D) KYC AML norms — Compliance at branch level

17. (B) Report on the conduct of accounts of all allocated limits is done by calling for the conduct reports from the corresponding branches.
During a credit audit, the evaluation of allocated credit limits is performed by requesting conduct reports from the respective branches. While the audit might be conducted at the branch that appraised the advance, physical inspection of all borrower premises is not a mandatory procedural requirement. This centralized reporting approach allows auditors to review account performance and adherence to lending terms.
18. (D) I, II, III, IV, and V
A comprehensive loan review checklist covers several critical stages of the lending process to ensure thorough oversight. These stages include credit initiation, loan structuring, file documentation, and the procedures for loan approval. Additionally, the mechanism evaluates normal loan monitoring and problem loan management. Together, these elements provide a complete picture of the bank's credit quality and adherence to internal policies.
19. (A) Breaches can only be reported on the basis of reporting by the branches and not by Regional or Zonal Office officials.
The reporting of breaches and non-compliances should follow a structured format approved by the bank's compliance policy. It is incorrect to suggest that only branches can report these issues. Regional and Zonal Office officials are also responsible for reporting any observed breaches. This ensures that non-compliance is captured at all levels of the organization and communicated to the Board.
20. (A) I, II, III, and IV
A bank's compliance function must be independent, well-resourced, and subject to periodic internal audits. It is considered a core risk management activity with clearly defined responsibilities. While some tasks can be supported by third parties, the function itself should not be fully outsourced. Maintaining an internal compliance presence is essential for transparency and effective corporate governance within the bank.
21. (D) The bank regards the management of systems risk as simply a systemic or technological issue rather than a form of management risk.
Systems risk arises from technical malfunctions, human error, and unethical conduct within computer systems. It is not merely a technological issue but a significant management risk that can impact society at large. Banks manage this by using backup centers and redundant lines. Viewing it solely as a systemic or technological issue rather than a management responsibility is a flawed approach.
22. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Market risk includes the inherent credit risk found in market transactions because counterparties might fail to fulfill their obligations. This failure leads to financial losses for the institution. Therefore, both the assertion regarding market risk's scope and the reason explaining counterparty failure are accurate. The reason directly supports the assertion by clarifying why credit risk is a component of market exposure.
23. (B) Decreasing risks arising out of Climate Change and air pollution
Learning from previous credit cycles helps institutions identify risks like risk layering, leveraged lending, and expanded delivery channels. However, decreasing risks from climate change is not a valid concern, as climate-related risks are actually increasing. Banks must focus on disclosures for non-depository institutions and other emerging threats while recognizing that environmental factors now pose greater, not fewer, financial challenges.
24. (C) Assertion (A) is true, but Reason (R) is false.
Operational risk can stem from internal issues like low staff morale and poor communication, which are critical warning signs. While external events like natural disasters or power failures also contribute, it is incorrect to claim that operational risk arises solely from external factors. The assertion about staff morale is true, but the reasoning provided is false because it ignores internal causes.

- 25.** (A) Profitability forecasting of new delivery channels

Independent testing of policies should cover high-risk customer identification, cash aggregation monitoring, and suspicious activity investigations. These activities are essential for ensuring compliance with regulatory standards and internal protocols. Profitability forecasting for new delivery channels is a business development function rather than a compliance testing activity. Testing must focus on the adequacy and effectiveness of existing risk controls and procedures.

- 26.** (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

A loan review is a targeted assessment of loan quality at a specific point in time, known as the focal date. It also evaluates the accuracy of risk grades assigned to individual loans. While both statements are true, the evaluation of risk grades does not explain why a focal date is used. Each point describes a different characteristic of the process.

- 27.** (A) The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, excluding strategic and reputational risk.

Operational risk is defined as the potential for loss resulting from failures in internal processes, human error, or system malfunctions, as well as external events. This definition specifically excludes strategic and reputational risks but includes legal risk. It represents a broad category of risk that banks must manage through robust controls, staff training, and comprehensive contingency planning for various scenarios.

- 28.** (C) Submit the risk-oriented activity plan to the Audit Committee of the Board (ACB) for approval and make it available to the internal audit.

Once a compliance risk assessment is complete, the resulting activity plan must be formally submitted to the Audit Committee of the Board for approval. This plan should also be made accessible to the internal audit department. Transparency and formal documentation are essential, ensuring that top management and

oversight bodies can review and authorize the proposed mitigation strategies and activities.

- 29.** (B) The probability of loss that remains to systems that store, process, or transmit information after security measures or controls have been implemented.

Residual risk is the probability of loss that remains after an organization has implemented security measures and controls. While inherent risk represents the initial exposure, residual risk accounts for the effectiveness of the safeguards in place. It is the actual risk level that management must decide to accept, transfer, or further mitigate through additional technologies, personnel, or process improvements.

- 30.** (C) Credit Initiation

Evaluating initial underwriting, analyzing repayment sources, and scrutinizing financial statements are all part of the credit initiation phase. This stage focuses on the borrower's eligibility and the initial assessment of their creditworthiness before the loan is approved. It ensures that the bank's decision to extend credit is based on a thorough understanding of the borrower's financial health and stability.

- 31.** (D) Understanding technological applications and their outcomes, alongside addressing privacy, accessibility, and prejudice risks.

Firms must take responsibility for understanding the outcomes of technological applications as they adapt to the digital landscape. This includes addressing risks related to privacy, accessibility, and potential prejudice in automated systems. Maintaining agility in compliance operations requires more than just automation; it demands careful oversight to ensure that technology does not compromise consumer protection or violate established legal frameworks.

- 32.** (A) 3 months

For accounts classified as high-risk, a more frequent review cycle is necessary to mitigate potential losses. In a standard credit audit framework, these accounts should be reviewed every three months. This quarterly schedule allows the bank to monitor the borrower's financial condition closely and detect any early

warning signals, ensuring that remedial actions can be taken promptly if needed.

33. (A) II, I, IV, III

The correct sequence for a compliance risk mitigation plan begins with conducting an activity-wise risk assessment and developing a plan. Next, any major changes or observations should be promptly reported to the Board or CEO. Periodically reporting failures and breaches follows this. Finally, the institution examines the sustenance of compliance as part of the annual assessment and testing exercise.

34. (C) Inherent Risk = Threats $\times$ Vulnerability

The formula for inherent risk is defined as the product of threats and vulnerability. This represents the total risk level present in a system before any mitigating controls or security protocols are applied. By calculating inherent risk, a bank can determine the baseline exposure of its assets and decide how much control is needed to achieve a safe residual level.

35. (A) P-4, Q-3, R-1, S-2

Different risks require specific management policies. Credit risk involves losses from borrower deterioration, while market risk relates to interest and exchange rate movements. Liquidity risk occurs when there is an extreme gap in fund maturities. Operations risk stems from errors in transaction handling or unethical conduct. Matching these risks to their descriptions is vital for a robust institutional risk framework.

36. (D) Quarterly as on the last working day of the quarter within 5 days of closure of the quarter. A compliance status certificate must be submitted on a quarterly basis to the administrative controlling office. This submission should take place as of the last working day of the quarter and be completed within five days of the quarter's closure. This regular reporting ensures that the regional or zonal offices are kept informed of the branch's adherence to compliance.

37. (C) P-3, Q-1, R-4, S-2

Risk management frameworks dictate the frequency of reviews based on account risk levels. High-risk accounts require quarterly reviews,

while average-risk accounts are reviewed every six months. Low-risk accounts typically undergo an annual review. Furthermore, a quality assurance external review should be conducted at least once every three years to ensure the entire compliance system remains effective and follows regulatory standards.

38. (C) It should be reported in the structured format per the compliance policy and sent to the Compliance department.

When a regional or zonal official discovers non-compliances during a random visit, the findings must be reported in a structured format as per the bank's compliance policy. This report is sent to the compliance department to ensure the breaches are formally addressed. Internal reporting is mandatory, and such discoveries should not be ignored or handled only at the local level.

39. (A) Head office audit — Independent audit Function within the Institution

Within an institution's independent testing framework, a head office audit represents the internal audit function. This function is responsible for providing an objective evaluation of the bank's controls and procedures. It is performed by internal staff who are independent of the activities they are testing, ensuring that the results are neutral and focused on improving organizational compliance and effectiveness.

40. (A) Better capital allocation

When a bank identifies redundancies and inefficiencies, it can allocate its financial and human capital more effectively across various departments. This process is known as better capital allocation. By integrating governance, risk, and compliance activities, the organization ensures that resources are not wasted on overlapping tasks, ultimately improving overall operational efficiency and supporting the institution's strategic goals and objectives.

41. (A) Market risk basic policy — Focuses exclusively on loan repayment defaults

The pillars of credit risk management include systems for credit rating, self-assessment, and analysis. A credit rating system ranks customers, while self-assessment quantifies risk. Credit analysis systems set lending policies.

However, a market risk basic policy focuses on losses from market movements like interest rates, rather than being focused exclusively on borrower defaults, which is the primary concern of credit risk.

42. (B) The act of following laws, rules, regulations, and various codes of conduct including mandatory and voluntary ones.

Compliance in a financial system is defined as the act of following all relevant laws, rules, and regulations. It also encompasses adhering to various codes of conduct, whether they are mandatory requirements or voluntary standards. This process ensures that the institution operates ethically and legally, thereby protecting it from regulatory sanctions, financial losses, and potential damage to its public reputation.

43. (C) Both I and II are correct

Data processing in finance centers on the quality of data and its usage to protect information. As data sharing continues to expand, there is an increasing expectation for more stringent privacy and security regulations globally. Both the importance of data usage quality and the rising demand for tighter regulatory oversight are accurate reflections of the current digital banking environment.

44. (C) The risk of legal or regulatory sanctions, financial loss, or reputational damage a bank suffers due to failure to comply with laws, regulations, and codes.

Compliance risk refers to the potential for legal or regulatory sanctions, financial loss, or reputational damage resulting from a bank's failure to adhere to laws and regulations. This includes non-compliance with industry codes and internal standards. Managing this risk is essential for maintaining the trust of regulators and customers, and it differs from purely operational, market, or inherent system risks.

45. (C) Both I and II are correct

Operations risk is defined as the risk of loss from failed internal processes, people, systems, or external events. This definition specifically includes legal risk while excluding strategic and reputational risk. Both statements accurately describe the standard banking industry

definition of operations risk, highlighting its focus on the internal and external factors that can disrupt daily business activities and functions.

46. (C) At least once in three years

To ensure the sustained quality and effectiveness of the compliance function, an independent external review must be conducted periodically. According to standard regulatory expectations, this review of the quality assurance and improvement program should occur at least once every three years. This process helps identify gaps in the compliance framework and ensures that the bank maintains high standards of governance.

47. (C) I and III

The BFSI sector faces challenges from rapid changes in payment systems, products, and delivery channels. Geopolitical protectionism and regulatory divergence are also major issues. Addressing these challenges requires modern, flexible technology and proactive strategies rather than outdated or rigid approaches. Therefore, statements concerning fast-moving changes and regulatory divergence are correct, while the suggestion that outdated technology is required is false.

48. (B) Needs improvement

In a compliance risk scoring system, a score between 5.1 and 7 indicates that the institution's compliance framework needs improvement. This level suggests that while some controls are in place, there are notable weaknesses that must be addressed to meet regulatory standards. Achieving this score serves as a signal for management to allocate resources toward strengthening their internal compliance policies.

49. (B) I and III

The scope of a credit audit includes a portfolio review to examine credit quality and suggest improvements. It also covers action points for review, such as verifying documentation and policy compliance. It is incorrect to state that loan reviews of the sanction process are strictly restricted to large accounts only, as credit audits often cover a broader range of accounts.

50. (C) Operational Resilience

Operational resilience refers to an integrated approach where banks manage disruptions and adapt to changing environments. This concept involves continuity planning, operational risk management, and concentration risk analysis. By focusing on resilience, an institution ensures it can maintain critical services and recover quickly from various events, ranging from technological failures to broader economic or environmental shifts that impact operations.

51. (D) I, II, and III

Effective compliance programs are marked by an aligned operating strategy and streamlined business processes. They also feature robust oversight mechanisms and the optimization of human and financial resources. When these elements are present, they indicate that the compliance function is well-integrated into the organization's daily operations, leading to improved effectiveness, reduced risk of breaches, and better overall corporate governance.

52. (D) Inherent risk

Inherent risk describes the raw level of risk present in a system before any security measures, technologies, or people are put in place to mitigate it. It is the initial exposure an institution faces out of the box. Identifying inherent risk is the first step in risk management, as it helps determine the necessary controls to achieve an acceptable level.

53. (D) I, II, III, and IV

Identifying the level of compliance risk requires evaluating regulatory focus, customer service aspects, and control mechanisms. Additionally, the bank's overall exposure or materiality regarding a specific business line or process must be considered. All these parameters are essential for a comprehensive risk assessment, allowing the institution to prioritize its compliance efforts and resources where they are most needed and impactful.

54. (C) The Head of the Internal Audit & Compliance department shall lead investigations into alleged unsatisfactory conduct of Bank employees.

The Head of the Internal Audit and Compliance department is responsible for

leading investigations into issues such as alleged unsatisfactory conduct by employees. This role ensures that internal reviews are conducted independently and thoroughly. While compliance has evolved to be more proactive, the investigation of internal misconduct remains a critical function for maintaining the integrity and ethical standards of the banking institution.

55. (A) I, II, and III

Selecting a sample size for random test checking involves considering regulatory focus, the inherent risk of the activity, and previous major breaches. However, it is not recommended to repeat the same branches in the sample every time. A varied selection ensures a more comprehensive and accurate assessment of compliance across the entire organization, preventing branches from predicting and preparing for audits.

56. (A) Inspections focus on immediate hazards or accidents, while audits address the underlying root causes of these organizational problems.

An inspection focuses on identifying and correcting immediate hazards or specific accidents within an organization. In contrast, an audit is a more comprehensive process designed to uncover and address the underlying root causes of systemic management problems. This distinction is critical for effective risk management, as it allows institutions to both react to immediate issues and prevent future occurrences.

57. (D) I, II, III, IV, and V

The credit audit department performs several key functions, including processing audit reports and analyzing findings to advise relevant departments. It also involves following up with controlling authorities, apprising top management of results, and managing the closure of audit reports based on responses received. These activities collectively ensure that the bank's credit risk is effectively monitored and that corrective actions are implemented.

58. (B) In the event of a sudden change in funding environment, banks rely entirely on government
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75. (A) Residual Risk = Inherent Risk × Control Risk

Residual risk is mathematically defined as the product of inherent risk and control risk. It represents the probability of loss that remains after an institution has implemented its security measures and internal controls. By understanding this relationship, banks can better evaluate the effectiveness of their mitigation strategies and determine if the remaining level of risk is acceptable within their overall framework.

76. (B) P-3, Q-1, R-2, S-4

The loan review mechanism checklist focuses on several key areas. Credit initiation involves evaluating underwriting and financial statements, while loan structuring assesses repayment terms against the borrower's ability to pay. File documentation requires verifying all relevant records and post-closing procedures. Finally, normal loan monitoring focuses on the ongoing verification of the loan's performance and compliance with terms.

77. (B) International Dept H.O.

When an overseas branch confirms its compliance with local laws, it must submit a certificate. Alongside the Compliance Department and the Chief Executive of the centre, a copy of this document must be sent to the International Department at the Head Office. This ensures that the central administration is fully informed about the regulatory status of its international operations and activities.

78. (A) P-3, Q-4, R-1, S-2

Integrating GRC provides several benefits. Higher quality information leads to more rapid, intelligent decision-making. Process optimization involves streamlining value-added activities and eliminating non-value-added ones to reduce lag time. Better capital allocation occurs when identifying redundancies allows for more effective resource distribution. Finally, reduced costs contribute to overall gains in return on investment through more efficient and effective operations.

79. (D) Process optimisation

The process of eliminating non-value-added activities and streamlining value-added

activities is a core component of process optimization. This specific action within a GRC framework aims to reduce lag time and increase operational efficiency. By refining these workflows, the bank can ensure that its resources are focused on the most critical tasks, ultimately improving its effectiveness and reducing waste.

80. (D) KYC AML norms — Compliance at branch level

Within a framework for random test checking, a correct match is the assessment of KYC and AML norms at the branch level. This ensures that individual branches are following the necessary procedures to verify customer identity and prevent money laundering. Other aspects of test checking include selecting sample sizes based on risk and ensuring that the sample varies over time.

indicator of effectiveness; rather, it can be a sign of instability or cultural issues. Effective compliance instead focuses on optimizing existing resources and ensuring that the workforce is well-trained.

67. (A) Needs improvement

A compliance risk score of 6.5 falls within the 5.1 to 7 range on the risk scale. This score indicates that the institution's compliance level needs improvement. While the bank has some systems in place, the assessment shows that there are weaknesses that require management's attention to ensure full adherence to regulatory requirements and to mitigate potential financial or reputational risks.

68. (D) To evaluate risk grades, assess individual loans including repayment risks, and determine compliance with lending procedures.

The primary function of a loan review is to evaluate the risk grades of individual loans and assess repayment risks. It also ensures that the lending process complies with the bank's established procedures and policies. This targeted review helps identify specific issues within individual loan accounts, differing from a portfolio review that looks at broader concentrations or overall loan loss reserves.

69. (D) At least once in every three years

For an institution to maintain a high-quality compliance function, it must subject its quality assurance and improvement program to independent external reviews. General regulatory guidelines suggest that this external assessment should occur at least once every three years. This ensures that the bank's internal compliance testing and assessment processes remain robust, objective, and aligned with current industry best practices.

70. (C) It allows management to make intelligent decisions more rapidly by eliminating non-value-added activities and optimizing resources. Integrating governance, risk, and compliance information is justified because it enables management to make intelligent decisions more quickly. By eliminating non-value-added activities and optimizing resources, the organization becomes more efficient. This integration does not guarantee the absolute

elimination of all risks, but it streamlines workflows and ensures that decision-makers have high-quality, comprehensive information at their disposal.

(B) Unlike a portfolio review, a loan review does not assess geographic concentrations that increase portfolio risk.

A loan review is distinct from a portfolio review as it focuses on individual loan quality and risk grades rather than broader trends. Therefore, a loan review does not typically assess geographic or borrower concentrations that increase portfolio risk. These broader concentrations are instead the focus of a portfolio review, which examines the overall distribution of the bank's lending activities.

72. (C) II, III, I

The procedure for a credit audit begins with the audit being conducted on-site at the branch that appraised the advance. Subsequently, the auditor calls for conduct reports from corresponding branches to report on the conduct of accounts for all allocated limits. Finally, it is noted that credit auditors are not required to physically inspect the borrowers' premises during this process.

73. (A) Inherent risk

The risk associated with potential cyber-attacks before any security protocols or controls are applied is known as inherent risk. This represents the raw vulnerability of the bank's systems in their baseline state. Identifying this risk allows the institution to understand the magnitude of the threat and determine the appropriate level of security measures needed to protect its digital assets.

74. (B) P-4, Q-3, R-2, S-1

Compliance risk scores correspond to specific levels of control. A score of 7.1–10 indicates a level that needs significant improvement, while 5.1–7 means it needs improvement. A score of 3.1–5 indicates that the system meets requirements, and the lowest range of 1–3 signifies that the compliance function is well-controlled. This scale helps management prioritize their corrective actions.

According to standard whistle-blower processes, if HR is unhelpful, who should the executive directly escalate this complaint to?

- (A) The local police station or relevant law enforcement authorities.
- (B) The external media outlets and social media investigative platforms.
- (C) The Ombudsperson / Chief Vigilance Officer (CVO) or Audit Committee.
- (D) The primary business competitors and rival firms of the company.

May/June 2024

- 31.** Within the GRC framework, what is the primary purpose of the “Compliance” process?
- (A) To establish a formal oversight role for activist shareholders who want to influence the company’s direction.
 - (B) To evaluate all relevant business risks, including operational, financial, and IT risks across the organization.
 - (C) To provide a strategic orientation for evaluating brand reputation and market share in different geographies.
 - (D) To ensure that an organisation has the internal controls to meet requirements from governmental bodies or policies.

Oct/Nov 2008

- 32.** If an executive in a Central Government department discovers corruption and wishes to submit a written disclosure under the PIDPI resolution, which designated agency is authorized to receive and act on this complaint?
- (A) The Reserve Bank of India (RBI)
 - (B) The Securities and Exchange Board of India (SEBI)
 - (C) The State Police Department
 - (D) The Central Vigilance Commission (CVC)

May/June 2006

- 33.** Arrange the following RBI penalty instances in correct chronological order:
- I. Penalty on Airtel Payments Bank for contravening Operating Guidelines.
 - II. Collective penalty of Rs 11 crores on seven public sector banks for current account norms.
 - III. Penalties of Rs 1.50 crores on 12 banks related to DCHL fraud.
 - IV. Combined penalty of Rs 14.50 crores on 14

Banks for non-compliance with provisions like ‘Lending to NBFCs’.

- (A) I, III, II, IV
- (B) III, I, II, IV
- (C) III, II, I, IV
- (D) II, III, I, IV

Oct/Nov 2017

- 34.** In a financial institution, the operational risk team needs a specific tool within their GRC system to allow department heads to proactively assess and evaluate their own internal controls. Which module within the GRC application is designed for this specific purpose?
- (A) Incident Management Module
 - (B) Regulatory Reports Module
 - (C) Risk Control Self-Assessment (RCSA) Module
 - (D) Issues and Action Plan Module

May/June 2008

- 35.** Match the GRC elements in List I with their correct functions in List II.
- List I: (GRC Elements)
- P. Governance
 - Q. Risk Management
 - R. Compliance
 - S. GRC solution
- List II: (Functions)
- 1. Provides an integrated platform for standardizing strategic and operational risk and consolidating data.
 - 2. Evaluates all relevant business and regulatory risks and monitors mitigation actions in a structured manner.
 - 3. The oversight role and process by which companies manage and mitigate business risks.
 - 4. Ensures the organisation has internal controls to meet requirements imposed by governmental bodies.
- (A) P-2, Q-3, R-1, S-4
 - (B) P-3, Q-2, R-4, S-1
 - (C) P-4, Q-1, R-2, S-3
 - (D) P-1, Q-4, R-3, S-2

Oct/Nov 2013

- 36.** Read the following scenario and answer the questions that follow:
- The government issues a new, highly complex technical regulation for the insurance sector.*

CHAPTER 30

Compliance Culture and GRC Framework

May/June 2016

1. To correct cultural flaws such as senior management overriding protocols or the existence of “cowboy” risk-taking, the regulatory body instructs a bank to redesign its decision-making framework. Which of the following is a key element of such a redesign?
(A) A purely tick-box adherence mechanism.
(B) An adequate incentive structure.
(C) A policy to penalize whistle-blowers who report senior management.
(D) A strategy to isolate the compliance staff from business decisions.

Oct/Nov 2009

2. Identify the incorrect pair regarding the modules implemented in a GRC application.
(A) Incident Management Module — Tracks and reports all operational loss events and security breaches in the bank.
(B) RCSA Module — Assesses and evaluates the effectiveness of internal risk controls through a self-assessment process.
(C) Market Dynamics Module — Automates the hiring and professional training process for the compliance department.
(D) Regulatory Reports Module — Uses the Basic Indicator Approach (BIA) and Standardised Approach (TSA) methods.

May/June 2023

3. What is the definition of “Governance” within the GRC framework?
(A) The oversight role and the process by which companies manage and mitigate business risks.
(B) The processes and internal controls implemented to meet the requirements imposed by governmental bodies and regulators.
(C) The evaluation of all relevant business and regulatory risks and the monitoring of mitigation actions in a structured manner.
(D) The automated application used to track

operational loss events and key risk indicators.

Oct/Nov 2018

4. Consider the following statements regarding the whistleblowing process:
I. The identity of the whistle-blower is always kept confidential in all cases, even if the investigation demands disclosure by law.
II. Under the PIDPI resolution, anonymous complaints shall not be acted upon by the designated agency.
Which of the above statement(s) is/are correct?
(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

May/June 2007

5. Which of the following defines a “Whistle-blower complaint”?
(A) A formal grievance filed by an employee regarding their annual performance appraisal, salary increment, or promotions.
(B) A complaint raised by customers against the poor service quality or unprofessional behavior of the front-line staff.
(C) A detailed statutory report submitted by the Board of Directors to the external regulatory authorities on an annual basis.
(D) A report where a person observes that an employee or associate has breached the ethical code of conduct or auditing matters.

Oct/Nov 2025

6. Consider the following statements regarding the powers of the CVC under the PIDPI resolution:
I. The designated agency (CVC) can call for comments/explanation of the Head of Department/Organisation on the

NODIA

disclosure made.

- II. The designated agency is prohibited from recommending appropriate action even if the allegation of corruption is found substantive.

Which of the above statement(s) is/are correct?

- (A) I only
- (B) II only
- (C) Both I and II
- (D) Neither I nor II

May/June 2012

7. Under which sections of the Banking Regulation Act, 1949 can the RBI impose penalties based on finding deficiencies in regulatory compliance?

- (A) Sections 35A and 47A(1)
- (B) Sections 46(4)(i) and 51(1)
- (C) Sections 20(1) and 19(2)
- (D) Sections 12 and 12A

Oct/Nov 2014

8. Consider the following statements regarding Model Policy Guidelines for whistleblowing:

- I. It is the responsibility of all employees to raise their concern against any unethical behaviour.
- II. Any illegal activity which is not reported despite knowing will be considered as a breach of ethical behaviour.
- III. The organisation must pay heavy monetary compensation to the employee solely for their participation in the whistleblowing process.

Which of the above combinations is correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II and III

May/June 2019

9. Under Draft Rule 12.5 of the Companies Act, 2013, it is compulsory to have a whistleblowing policy for companies borrowing more than what amount from banks or public financial institutions?

- (A) Rs. 10 crores
- (B) Rs. 25 crores
- (C) Rs. 50 crores
- (D) Rs. 100 crores

Oct/Nov 2006

10. Consider the following statements regarding the reasons for compliance failures:

- I. "Collapse in belief in law" occurs when voluntary compliance costs are considered too high or the regulation is inflexible.
- II. "Failure to monitor" implies that a rule on the books that is vigorously monitored will inevitably lead to non-compliance.
- III. "Regulation is at odds with market incentives" happens when regulation does not fit well with existing market practices or cultural norms.

Which of the above combinations is correct?

- (A) I and II only
- (B) I and III only
- (C) II and III only
- (D) I, II and III

May/June 2021

11. When regulators evaluate the attribute of "Silos" in a strong compliance culture, what are they primarily looking for?

- (A) Whether the compliance department is walled off from the rest of the organisation and excluded from business decisions.
- (B) Whether the compliance department operates in a highly secured, restricted access area.
- (C) Whether the compliance staff is completely isolated from business operations to maintain strict independence.
- (D) Whether the organisation separates its governance, risk, and compliance data into distinct, unconnected databases.

Oct/Nov 2010

12. Which of the following statements represent signs of a poor compliance culture?

- I. Treating internal control/risk management framework as an irritant.
- II. Tendency to cover up the problems rather than resolving the underlying causes.
- III. Employees are encouraged to speak out when they have concerns.
- IV. Failing to challenge the status quo resulting in risk blind spots.

Which of the above combinations is correct?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, II, and IV only
- (D) I, III, and IV only

May/June 2005

13. What is the fundamental conceptual advantage of an integrated GRC approach over managing governance, risk, and compliance initiatives in silos?
- (A) It allows different departments to deploy their own customized software solutions independently without central oversight.
 - (B) It addresses the redundancy of work and duplicative software by providing a clear process and a single point of reference.
 - (C) It ensures that compliance policies apply only to specific groups of high-risk staff rather than the general workforce.
 - (D) It encourages employees to report fraud directly to external law intelligence agencies instead of using internal channels.

Oct/Nov 2022

14. Once an investigation is handed over to the Audit Committee by the CVO/Ombudsman, which of the following tasks will the committee perform?
- I. Discuss the steps needed internally for investigation of the complaint.
 - II. Publish all confidential information to external media outlets to maintain public trust.
 - III. Maintain secrecy to protect the uprightness of the whistle-blower process.
 - IV. Be in contact with employees, vendors, and stakeholders to get necessary information.
- Which of the above combinations is correct?
- (A) I, II, and III only
 - (B) II, III, and IV only
 - (C) I, III, and IV only
 - (D) I, II, and IV only

May/June 2018

15. Identify the correct statement regarding the Minimum Supervisory Expectation of "Accountability" in a compliance culture.
- (A) Accountability for regulatory compliance rests solely on the designated Chief Compliance Officer of the organization.
 - (B) The internal audit function serves as the primary first line of defense in facilitating a robust compliance culture.
 - (C) The business unit or operational department serves as the third level of defense in managing compliance risk.

- (D) It requires a clear demarcation of accountability of senior management, functional head, and operational head.

Oct/Nov 2016

16. Regarding the Compliance Organisation and the role of the Chief Compliance Officer (CCO), which of the following are expected?
- I. Developing testing and monitoring procedures for assessing the extent of compliance.
 - II. Creating awareness and educating staff by introducing at least one session on Compliance during training.
 - III. Coordinating with the central audit and inspection department for simultaneous identification of key issues.
 - IV. Subordinating the compliance department under the direct operational control of the sales head to boost revenue.

Which of the above combinations is correct?

- (A) I, II, and III only
- (B) II, III, and IV only
- (C) I, II, and IV only
- (D) I, III, and IV only

May/June 2014

17. Identify the correct statement regarding Clause 49 of the listing agreement prescribed by SEBI.
- (A) The existence of the whistle-blower mechanism must be kept confidential among the board of directors.
 - (B) The company will establish a mechanism for employees to report to the management concerns about unethical behaviour.
 - (C) The mechanism prevents employees from having direct access to the Chairman of the audit Committee under any circumstance.
 - (D) The formulation of a whistle-blower policy is strictly prohibited for companies listed on the stock exchange.

Oct/Nov 2007

18. Which of the following statements regarding RBI penalties on banks are correct?
- I. Rs 1.50 crores on 12 banks in July 2014 regarding DCHL loan accounts.
 - II. Rs 50 million on Airtel Payments Bank in March 2018 for KYC and operating guideline contraventions.
 - III. Rs 1 million on Equitas Small Finance

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bailouts as they do not maintain contingency plans.

Liquidity risk arises when an institution faces a shortage of funds due to maturity gaps between inflows and outflows. Banks manage this by examining fund sources and maintaining contingency plans. It is incorrect to claim that banks rely entirely on government bailouts and lack their own contingency strategies. Proactive liquidity management is essential for survival during periods of sudden market volatility.

59. (D) I, II, III, IV, and V

An efficient compliance policy must account for changes in the organization's risk profile, the compliance function itself, and new regulations. It should also consider enhancements in information technology and updates to monitoring parameters. By reviewing these factors since the previous audit, a bank ensures that its compliance program remains relevant and effective in addressing the most current risks and requirements.

60. (C) A loan review does not assess loan quality at a specific point in time called the focal date. A loan review is a targeted evaluation of individual loans, focusing on risk grades and compliance with procedures at a specific point in time, known as the focal date. It is distinct from a broader portfolio review and does not provide an overall opinion on loan loss reserves. Therefore, the statement claiming it does not use a focal date is incorrect.

61. (D) I, II, III, IV, and V

Action points for a credit audit review include verifying compliance with sanction policies, examining documentation adequacy, and conducting risk assessments. Furthermore, auditors must examine the conduct of the account, follow up with functionaries, and detect early warning signals to suggest remedial measures. These comprehensive steps ensure that the credit portfolio is healthy and that all lending activities align with bank policies.

62. (C) Standardization of mandatory commercial interest rates across global central banks. Areas of regulatory divergence typically include cybersecurity, data privacy, and special supervisory expectations that deviate from

global standards. Innovative technological applications also contribute to this divergence. However, the standardization of mandatory commercial interest rates across global central banks is not listed as a main area of regulatory divergence in the context of banking compliance and supervisory frameworks.

63. (D) Assertion (A) is false, but Reason (R) is true.

The compliance function is a fundamental part of a bank's corporate governance structure and cannot be entirely outsourced to third-party providers. While some support tasks might be outsourced, the core responsibility and oversight must remain internal to ensure accountability. Thus, the assertion that it can be fully outsourced is false, even though the reason regarding its importance to governance is true.

64. (D) Culture in the business that is just about lip service

Essential ingredients of due diligence include a real commitment to compliance, effective reporting, and consistent enforcement through disciplinary actions. A culture that only provides lip service is the opposite of a genuine commitment. Such a superficial approach fails to protect the organization and is not a part of a robust due diligence process within a professional compliance framework.

65. (D) Assertion (A) is false, but Reason (R) is true.

Implementing controls, such as checking for traffic, helps mitigate risk but never completely eliminates it. The risk that remains after such measures are taken is known as residual risk. Therefore, the assertion that controls eliminate all risk is false, while the definition of residual risk as the probability of loss remaining after security measures is a true and accurate statement.

66. (C) Accelerated turnover of staff to ensure agility

Good compliance and effective programs are indicated by aligned strategies, streamlined processes, and better capital allocation through the identification of redundancies. Accelerated staff turnover is generally not a benefit or an

Assertion (A): Taking an integrated GRC approach enables an organisation to significantly reduce the overall cost of compliance.

Reason (R): An integrated approach eliminates redundant work in various initiatives and removes duplicative software, hardware, and training costs.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2017

25. A whistle-blower policy consists of four broad components. Which of the following is NOT one of those components?
- (A) An external media outlet
 - (B) A whistle-blower
 - (C) A wrongful or unethical practice
 - (D) An authority

Oct/Nov 2005

26. The following question consists of two statements, an Assertion (A) and a Reason (R). Select the correct answer using the options given below:
- Assertion (A): Regulators love documentation and expect organisations to maintain good record keeping.
- Reason (R): Good record keeping and documented workflows reflect a strong compliance culture and prove that compliance policies are actually working and being tested.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

May/June 2020

27. Which attribute is considered the most important hallmark of a culture of compliance by regulators?
- (A) Tone at the top
 - (B) Technology
 - (C) Resources
 - (D) Documentation

Oct/Nov 2015

28. Consider a scenario where the Chief Compliance Officer (CCO) attempts to halt the sale of risky derivatives. However, the Board of Directors overrides the CCO, placing the sales head's decisions above compliance concerns, leaving the CCO with no real authority. Which attribute that regulators look for is severely compromised in this bank?
- (A) Technology automation
 - (B) Documentation workflow
 - (C) Cross-enterprise integration
 - (D) Power (Independence and respect of the CCO)

May/June 2013

29. What is the most likely consequence of "Procedural injustice" as a cause of compliance failure?
- (A) The government introduces overly legalistic and inflexible rules that are impossible for firms to implement.
 - (B) People who feel they are treated unfairly by a regulatory agency will often respond by refusing to comply with regulatory requirements.
 - (C) Businesses dedicate more time and resources to lobbying regulators instead of complying with new standards.
 - (D) Employees are unable to comply with requirements because they do not understand what is legally required.

Oct/Nov 2021

30. Read the following scenario and answer the questions that follow:
- An executive in a listed company discovers that senior management is misrepresenting financial data to inflate stock prices. The executive approaches the HR department, but the HR manager advises keeping quiet to avoid being fired. The company has a mandated whistle-blower policy in place.*

Bank in March 2018 for rolling out mutual funds without RBI approval.

- IV. Rs 10 crores on HDFC Bank in May 2021 regarding the auto loan portfolio and forced GPS device bundling.
- V. A combined penalty of Rs 14.50 crores on 14 banks in July 2021 related to “companies of a Group” accounts and NBFC lending.

Which of the above combinations is correct?

- (A) I, II, III, and IV only
- (B) II, III, IV, and V only
- (C) I, III, IV, and V only
- (D) I, II, III, IV, and V

May/June 2025

19. In order to build a compliance program, an organisation can follow 7 essential elements. Which of the following is incorrectly stated as one of these elements?
- (A) Ensuring compliance standards are kept strictly confidential to avoid public scrutiny.
 - (B) Implementing written policies, procedures, and standards of conduct.
 - (C) Conducting effective training and education.
 - (D) Responding promptly to detected offenses and undertaking corrective action.

Oct/Nov 2019

20. Which of the following are recognized reasons for compliance failures?
- I. Failure to understand law
 - II. Overly legalistic regulation
 - III. Deterrence failure due to high rewards and low probabilities of detection
 - IV. Procedural injustice
 - V. Total alignment of regulations with market incentives
- Which of the above combinations is correct?
- (A) I, II, III, and IV only
 - (B) II, III, IV, and V only
 - (C) I, III, IV, and V only
 - (D) I, II, IV, and V only

May/June 2009

21. Which of the following is an incorrect statement explaining the reasons for compliance failures?
- (A) Failure to understand the law occurs because requirements are too complex to know and understand.

- (B) Collapse in belief in law happens when the costs in time, money, or effort of complying with a rule are considered to be high.
- (C) Overly legalistic regulation causes people to lose confidence in regulators if technical rules do not appear to relate to any substantive purpose.
- (D) Procedural injustice indicates that people who believe they are dealt with fairly by a regulatory system are more likely to refuse to comply.

Oct/Nov 2011

22. The following question consists of two statements, an Assertion (A) and a Reason (R). Select the correct answer using the options given below:

Assertion (A): Compliance must work closely and communicate well with all risk areas and businesses across the enterprise.

Reason (R): Risks in banking are both complex and often inter-related, meaning credit risk can be accompanied by interest rate risk, and compliance risk can overlap with operational risk.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2010

23. Regulators look for 10 typical attributes to gauge a “robust culture of compliance”. Which of the following is NOT one of these attributes?

- (A) Tone at the top
- (B) Sub-Cultures unaligned with organisational culture
- (C) Employee Buy-In
- (D) Living Compliance Program

Oct/Nov 2024

24. The following question consists of two statements, an Assertion (A) and a Reason (R). Select the correct answer using the options given below:

The regulation mandates a drastic overhaul of existing IT systems within 30 days. The cost of compliance is exceptionally high, and the rule does not fit well with existing market practices. Consequently, many insurance firms dedicate money to lobby regulators instead of trying to comply.

The firms' reaction to the unreasonably high cost and inflexible deadline is best described by which reason for compliance failure?

- (A) Collapse in belief in law
- (B) Procedural injustice
- (C) Deterrence failure
- (D) Failures of administrative capacity

May/June 2015

- 37.** Match the banking entities penalized by regulators in List I with the reasons for their penalties in List II.

List I: (Entities)

- P. Equitas Small Finance Bank
- Q. Union Bank of India
- R. Nagarik Sahakari Bank Ltd.
- S. HDFC Bank (May 2021)

List II: (Reasons)

- 1. Failure to file Fake Indian Currency Note (FICN) reports.
- 2. Rolling out Mutual Fund units and pension products without prior approval.
- 3. Irregularities in the auto loan portfolio regarding bundled GPS devices.
- 4. Non-compliance with directions on cybersecurity framework (SWIFT messages).

- (A) P-2, Q-4, R-1, S-3
- (B) P-1, Q-3, R-2, S-4
- (C) P-3, Q-1, R-4, S-2
- (D) P-4, Q-2, R-3, S-1

Oct/Nov 2012

- 38.** If regulators insist on a technical rule despite it lacking any clear substantive policy objective, leading the industry to lose confidence in the regulatory body, which cause of compliance failure does this represent?

- (A) Deterrence failure
- (B) Overly legalistic regulation
- (C) Failure of causal relation between regulation and objective
- (D) Procedural injustice

May/June 2011

- 39.** Identify the correct statement regarding the provisions under the Companies Act, 2013 relating to whistleblowing and investigations.
- (A) Section 211 — Creates the Serious Fraud Investigation Office (SFIO) which has the power to arrest any person for fraud.
 - (B) Section 210 — Empowers an Inspector to inspect company records and furnish recommendations.
 - (C) Section 208 — States that the Central Government may order an investigation into the affairs of the company on receipt of a report by Registrar.
 - (D) Draft Rule 12.5 — Makes it compulsory for all unlisted private companies to publish audit reports in media.

Oct/Nov 2020

- 40.** A bank provides branch managers with massive financial bonuses based solely on the volume of loans sanctioned, without any penalties for subsequent defaults or KYC violations. This practice relates to which attribute evaluated by regulators when assessing compliance culture?
- (A) Comprehensive Internal Documentation
 - (B) Departmental Silos
 - (C) Cowboys (Rewarding risk-taking without limits)
 - (D) Integration across the enterprise

May/June 2022

- 41.** Identify the incorrect pair regarding the individuals protected or concepts covered under the model whistleblowing policy guidelines.
- (A) Protected Individual — Any person who is currently working alongside the whistleblower in the organization.
 - (B) Protected Individual — Any person representing the whistle-blower during an investigation or legal court action.
 - (C) Retaliation — Unfair measures like suspension, decrease in salary, or assigning work of extremely poor quality.
 - (D) Protected Individual — A person who raises a concern with malicious intent and not in a state of good faith.

Oct/Nov 2023

42. How is “Compliance Culture” defined in the context of an organisation?
- (A) A mandatory regulatory checklist designed to ensure that the organisation successfully passes periodic external audits.
 - (B) Workplace behavior meeting ethical and legal norms, shaped by organizational values and assumptions.
 - (C) A formal system of punitive measures imposed by senior management to prevent any potential acts of financial fraud.
 - (D) An independent audit function responsible for tracking the financial performance across all various business units.

May/June 2016

43. Consider the following statements regarding Compliance Organisation and Authority:
- I. The compliance function should have sufficient authority, stature, independence, resources, and access to the Board.
 - II. Management should frequently intervene and interfere with the internal operations of the compliance function to maintain control.
- Which of the above statement(s) is/are correct?
- (A) I only
 - (B) II only
 - (C) Both I and II
 - (D) Neither I nor II

Oct/Nov 2009

44. How is a “whistle-blower” defined under the components of a whistle-blower policy?
- (A) An external auditor who identifies discrepancies in the financial statements of a company.
 - (B) A compliance officer tasked with training employees on the code of conduct.
 - (C) A person who raises a concern about wrong-doing occurring in an organisation or body of people.
 - (D) An individual appointed by a regulatory authority to supervise the internal audit department.

May/June 2023

45. Consider the following statements regarding stress testing and compliance culture:
- I. Banks undergoing stress testing programs

report that the top benefit is maintaining a backward-looking view of the organisation’s risks.

- II. A strong compliance culture helps attract and retain talent and ensures employee engagement.

Which of the above statement(s) is/are correct?

- (A) I only
- (B) II only
- (C) Both I and II
- (D) Neither I nor II

Oct/Nov 2018

46. In August 1992, the Reserve Bank of India introduced a system of designating a “Compliance Officer” in banks based on the recommendations of which committee?
- (A) Basel Committee on Banking Supervision
 - (B) Committee on Corporate Governance (Kotak Committee)
 - (C) Committee on Frauds and Malpractices in Banks (Ghosh Committee)
 - (D) Committee on Banking Sector Reforms (Narasimham Committee)

May/June 2007

47. Consider the following statements regarding the Minimum Supervisory Expectation on Compliance Culture:
- I. The bank’s senior management is responsible for effective adherence to the compliance policy and ensuring compliance risk is minimized.
 - II. General standards for all staff members should be merged with rules that apply only to specific groups of staff to avoid distinction.
 - III. An effective compliance culture requires continuous communication of expectations on risk and compliance across the bank.
- Which of the above combinations is correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II and III

Oct/Nov 2025

48. In July 2014, the RBI imposed penalties on 12 banks for non-compliance with regulatory guidelines in the conduct of loan and current

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accounts. Which company was involved in defrauding these banks?

- (A) Trackpoint GPS
- (B) Nagarik Sahakari Bank Ltd.
- (C) Equitas Small Finance Bank Limited
- (D) Deccan Chronicle Holdings Ltd.

May/June 2012

49. Consider the following statements regarding the attributes of a robust compliance culture:
- I. If senior management conducts a cost-benefit analysis when deciding whether to engage in an illegal transaction, it shows a strong tone at the top.
 - II. To facilitate employee buy-in, organisations should have a zero-tolerance policy for employee misconduct.
 - III. The compliance program must be tailored to the organisation's business and risks, and not just be a stagnant checklist.
- Which of the above combinations is correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II and III

Oct/Nov 2014

50. The compliance function is expected to be "ex ante and forward looking". What does this imply?
- (A) Focusing strictly on the detailed analysis of historical data to identify and penalize employees for past errors.
 - (B) Relying exclusively on the findings of the internal audit department after all financial transactions are completed.
 - (C) Assessing the bank's activities in advance to prevent non-compliant actions from being carried out.
 - (D) Operating entirely independently of the bank's overall risk management strategy and organizational structures.

May/June 2019

51. Consider the following statements regarding the responsibilities of the compliance function:
- I. Identify major compliance issues to be addressed on a priority basis.
 - II. Review policies by the functional departments based on experience gained during implementation.
 - III. Establish sub-cultures that are deliberately

misaligned with the organisational culture during mergers.

Which of the above combinations is correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II and III

Oct/Nov 2006

52. Regulators assess the attribute of "Cowboys" in an organisation's compliance culture. What does this term conceptualize?
- (A) Employees who report unethical practices directly to external media outlets or public regulatory bodies.
 - (B) Front-line sales agents who conduct mandatory KYC verifications for diverse customers in rural areas.
 - (C) Senior management conducting a detailed cost-benefit analysis to justify investing in compliance technology.
 - (D) Rewarding risk-taking without limits, basing rewards solely on short-term financial performance.

May/June 2021

53. Which of the following are benefits of taking an integrated GRC approach?
- I. Having a dramatic positive impact on organisational effectiveness by providing a clear process.
 - II. Eliminating duplicative software, hardware, and training costs.
 - III. Providing a "single version of the truth" available to employees, management, and auditors.
 - IV. Ensuring that compliance initiatives get planned and managed in isolated silos to prevent data overlap.
- Which of the above combinations is correct?
- (A) I, II, and III only
 - (B) II, III, and IV only
 - (C) I, II, and IV only
 - (D) I, III, and IV only

Oct/Nov 2010

54. Identify the correct statement regarding the Public Interest Disclosure and Protection of Informers Resolution (PIDPI), 2004.
- (A) The designated agency under PIDPI is the Securities and Exchange Board of India (SEBI) for all listed companies.

S. Deterrence failure

List II: (Descriptions)

1. A rule on the books is not observed vigorously, reducing the likelihood of future compliance.
2. Rule breaking has high rewards and low probabilities of detection.
3. Requirements are too complex to know and understand.
4. Requiring adherence to technical rules that do not appear to relate to any substantive purpose.

- (A) P-3, Q-4, R-1, S-2
(B) P-1, Q-4, R-2, S-3
(C) P-4, Q-2, R-3, S-1
(D) P-2, Q-3, R-1, S-4

May/June 2008

77. If a new regulation is released that does not fit well with the existing market practices and cultural norms of an industry, leading firms to lobby against it rather than comply, which cause of compliance failure does this represent?
- (A) Failure to understand the law due to a lack of formal legal training among the various senior management teams.
(B) Regulation is at odds with market incentives or cultural practices observed within the specific industry sector.
(C) Failure to monitor the implementation of new policies across all the regional and local branches of the firm.
(D) Failure to understand the core technical problem that the new regulation was initially designed to remediate.

Oct/Nov 2013

78. Match the components of a Whistle-blower Policy in List I with their specific details in List II.

List I: (Components)

- P. A whistle-blower
Q. A wrongful practice
R. An authority
S. A policy

List II: (Details)

1. Defines a specific process for escalation, and the receiver must be independent, senior, and responsible.
2. An internal document allowing persons to report improper practices to designated

individuals.

3. Actions concerning serious disregard to the law of the land, corruption of a high order, or human rights crimes.
 4. A person who raises a concern about wrong-doing occurring in an organisation or body of people.
- (A) P-2, Q-3, R-1, S-4
(B) P-4, Q-3, R-1, S-2
(C) P-3, Q-1, R-4, S-2
(D) P-1, Q-4, R-2, S-3

May/June 2015

79. Read the following scenario and answer the questions that follow:

A bank has drafted a comprehensive, 200-page compliance manual. However, the CEO frequently overrides compliance protocols to approve high-risk loans for favored clients. During inspections, the regulators note that while the written policy is perfect, the actual decisions made by senior management disregard it.

Which Minimum Supervisory Expectation is primarily lacking in this bank?

- (A) Tone from the top (Value demonstration in actions)
(B) Advanced Technology and Data Automation
(C) Internal Corporate Incentive Structure
(D) Strict Whistle-blower Confidentiality

Oct/Nov 2012

80. Identify the correct pair regarding the provisions for the protection of Whistle-Blowers under the PIDPI Resolution.

- (A) Paragraph 6 — The designated agency may seek the assistance of CBI or police authorities to complete the investigation of cases.
(B) Paragraph 11 — Deals with anonymous complaints being rejected immediately by the agency without preliminary inquiry.
(C) Paragraph 7 — The designated agency may give suitable directions for the protection of the whistle-blower to the concerned public servant or public authority.
(D) Paragraph 11A — Mentions that the identity of the complainant will not be revealed unless voluntarily disclosed.

- (A) Retaliation includes punitive measures like suspension, decrease in salary, or assigning work of poor quality.
- (B) The confidentiality of the person acting as a whistle-blower should be strictly taken into account.
- (C) The organisation can discriminate against an employee regarding salary if they are helping in the investigation process.
- (D) Strict disciplinary action will be taken in case of any retaliation against the employee who raised the concern.

May/June 2025

61. Which of the following are provisions or features of the PIDPI Resolution (2004) and its amendments?
- I. The CVC is the Designated Agency to receive written complaints.
 - II. Anonymous complaints shall not be acted upon.
 - III. The identity of the complainant will not be revealed unless disclosed by the complainant himself.
 - IV. The designated agency may seek the assistance of CBI or police authorities to complete the investigation.
 - V. Any public servant can make a written disclosure, but NGOs are strictly prohibited from making disclosures.
- Which of the above combinations is correct?
- (A) I, II, III, and IV only
 - (B) II, III, IV, and V only
 - (C) I, III, IV, and V only
 - (D) I, II, IV, and V only

Oct/Nov 2019

62. Which of the following is NOT a sign of a poor compliance culture?
- (A) Adherence to the letter of the law/regulation, but not the spirit (tick-box attitude).
 - (B) Tendency to cover up problems rather than resolving the underlying causes.
 - (C) Focusing on long-term interests of the entity over short-term personal profitability.
 - (D) Dominance of individuals in decision-making forums and lack of challenge.

May/June 2009

63. The following question consists of two statements, an Assertion (A) and a Reason

(R). Select the correct answer using the options given below:

Assertion (A): Under the PIDPI resolution, anonymous complaints received by the designated agency shall not be acted upon.

Reason (R): The designated agency requires the identity of the complainant to publish it in national newspapers for transparency.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2011

64. A GRC application generally implements several modules. Which of the following is NOT listed as a standard GRC module?
- (A) Incident Management Module
 - (B) Risk Control Self-Assessment (RCSA) Module
 - (C) Key Risk Indicators (KRI) Module
 - (D) Customer Relationship Management (CRM) Module

May/June 2010

65. The following question consists of two statements, an Assertion (A) and a Reason (R). Select the correct answer using the options given below:

Assertion (A): Preventive compliance requires assessing the activities of the bank only after transactions have been fully executed to penalize the offenders.

Reason (R): The focus of the compliance function should be on ex-ante and forward-looking activities rather than relying solely on post-mortem audits.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.

ANSWERS

1. (B) An adequate incentive structure
Cultural flaws like senior management overrides or excessive risk-taking require a fundamental shift in how behavior is rewarded within a bank. Redesigning the decision-making framework involves creating an incentive structure that aligns individual performance with long-term stability rather than short-term gains. This ensures employees prioritize compliance over risky, unapproved protocols or “cowboy” behaviors.
2. (C) Market Dynamics Module — Automates the hiring and professional training process for the compliance department.
The Market Dynamics Module is not a standard component of a Governance, Risk, and Compliance application designed to automate HR processes like hiring or training. Standard GRC modules typically focus on functions like incident management, risk control self-assessments, and regulatory reporting. Automating the recruitment and professional training of staff falls under human resource management systems rather than compliance.
3. (A) The oversight role and the process by which companies manage and mitigate business risks. Governance within the GRC framework refers to the oversight role and specific processes established by a company to manage and mitigate various business risks. It ensures that the organization’s activities align with its strategic goals while maintaining accountability and transparency. This structural framework provides the necessary guidance for leadership to direct the company ethically and effectively.
4. (B) II only
Under the Public Interest Disclosure and Protection of Informers resolution, anonymous complaints are generally not acted upon to prevent malicious or unfounded allegations. While confidentiality is a core principle, it is not absolute and may be disclosed if required by law during an investigation. Therefore, the

requirement for identity disclosure under legal mandates makes the first statement incorrect.

5. (D) A report where a person observes that an employee or associate has breached the ethical code of conduct or auditing matters.
A whistle-blower complaint is a specific report made by an individual who observes that an employee or associate has breached the ethical code of conduct or committed irregularities in auditing matters. It is distinct from personal grievances regarding salary or performance appraisals. Such complaints serve as an internal mechanism to highlight illegal, unethical, or improper activities.

6. (A) I only
The Central Vigilance Commission, as the designated agency under the Public Interest Disclosure and Protection of Informers resolution, has the authority to call for comments or explanations from heads of departments regarding disclosures. It is also empowered to recommend appropriate actions if allegations are substantiated. Restricting the agency from recommending action would undermine its fundamental oversight purpose.

7. (B) Sections 46(4)(i) and 51(1)
The Reserve Bank of India derives its power to impose financial penalties for regulatory compliance deficiencies from specific provisions of the Banking Regulation Act, 1949. Sections 46(4)(i) and 51(1) provide the legal basis for these enforcement actions. These penalties serve as a deterrent against non-compliance and ensure that banks adhere to established financial and operational standards.

8. (A) I and II only
Whistle-blowing policies emphasize that all employees share the responsibility to report unethical behavior and that failing to report known illegal activities constitutes a breach of ethics. However, organizations do not provide heavy monetary compensation solely for participating in the process. The focus is

practice for employees who demonstrate a drop in their operational efficiency.

- (C) A justified action since the executive intentionally bypassed the standard internal Human Resources department.
- (D) A minor ethical breach that simply requires the executive to apologize to the manager for the initial escalation.

Oct/Nov 2021

72. Arrange the following regulatory milestones regarding compliance and whistleblowing in India in correct chronological order:
- I. The Whistle-blower Protection Bill
 - II. RBI introduces system of designating "Compliance Officer" based on Ghosh Committee
 - III. Public Interest Disclosure and Protection of Informers Resolution (PIDPI)
 - IV. BCBS issues High Level Paper on Compliance Risk and Compliance Function
- (A) II, III, IV, I
 (B) II, IV, III, I
 (C) III, II, IV, I
 (D) IV, II, III, I

May/June 2024

73. Read the following scenario and answer the questions that follow:
- A large financial institution is facing spiraling compliance costs. Their internal audit team uses one software platform, the IT security team uses another, and the regulatory reporting team uses a third. This leads to redundant work, contradictory documentation, and a fragmented view of enterprise risk.*
- To resolve this issue, which approach should the institution adopt?
- (A) Establish isolated and independent compliance silos for every individual department.
- (B) Take an integrated Governance, Risk and Compliance (GRC) approach deploying a single system.
- (C) Eliminate the internal compliance department and outsource the entire function to a third party.
- (D) Adopt a solely legalistic and technical approach to managing all regulatory compliance matters.

Oct/Nov 2008

74. Match the typical attributes of a compliance culture in List I with their corresponding descriptions in List II.
- List I: (Attributes)
- P. Integration across the enterprise
 Q. Living Compliance Program
 R. Resources
 S. Employee Buy-In
- List II: (Descriptions)
1. The firm's culture must be embedded in the employees, facilitated by a zero-tolerance policy.
 2. Compliance must work closely and communicate well with all risk areas as risks are inter-related.
 3. The program should not be a stagnant checklist; it must be tailored, tested, and modified.
 4. Evaluating if there is a strong disparity between investments to make money versus facilitating compliance.
- (A) P-2, Q-3, R-4, S-1
 (B) P-1, Q-4, R-2, S-3
 (C) P-3, Q-1, R-4, S-2
 (D) P-4, Q-2, R-3, S-1

May/June 2006

75. What is the most significant benefit a financial institution will likely observe from integrating their governance, risk, and compliance initiatives into a single system?
- (A) It encourages a 'cowboy' culture characterized by limitless and unsupervised risk-taking activities in branches.
- (B) It ensures that all internal compliance policies and procedures are kept entirely secret from the general staff.
- (C) It completely replaces the need for an independent and professional Board of Directors for the entire institution.
- (D) It significantly reduces compliance costs by eliminating redundant work and providing a single version of the truth.

Oct/Nov 2017

76. Match the causes of compliance failure in List I with their descriptions in List II.
- List I: (Causes)
- P. Failure to understand law
 Q. Overly legalistic regulation
 R. Failure to monitor

- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

66. The Association of Certified Fraud Examiners (ACFE) has highlighted five reasons why employees do not report unethical conduct. Which of the following is NOT one of those reasons?
- (A) No corrective action
 - (B) Retaliation by superiors
 - (C) Lack of monetary rewards for reporting
 - (D) Unsure whom to contact

May/June 2017

67. Read the following scenario and answer the questions that follow:
A private bank aggressively launches a new, complex derivative product. The regional sales head instructs his team to skip periodic risk profiling and customer identification procedures to quickly onboard unsophisticated customers. He explicitly tells his team that the compliance framework is an "irritant" delaying their bonuses.

Based on the scenario, which sign of poor compliance culture is most evident?

- (A) Failing to challenge the status quo regarding the long-term investment in necessary technological infrastructure.
- (B) Treating internal control frameworks as an irritant and breaching them at will for immediate short-term benefits.
- (C) Providing a living and breathing compliance program that adapts to sudden market changes and regulatory shifts.
- (D) Maintaining high levels of employee buy-in through a strict zero-tolerance policy for all types of misconduct.

Oct/Nov 2005

68. What is the most appropriate primary objective of a whistle-blower policy?
- (A) To generate hidden earnings for the bank by avoiding all compliance penalties and regulatory fines.
 - (B) To enable the management to identify and terminate employees who perform poorly in their daily tasks.
 - (C) To serve as the primary official mechanism for customers to complain about high interest rates on loans.

- (D) To give stakeholders a platform to raise concerns against wrongdoing and protect employees against retaliation.

May/June 2020

69. In a situation where a bank aggressively skips KYC procedures and treats the compliance framework as an "irritant," the bank is subjected to a supervisory evaluation by the Reserve Bank of India (RBI). Under which authority would the RBI most likely impose penalties on this bank?
- (A) Section 211 of the Companies Act, 2013 regarding the Serious Fraud Investigation Office.
 - (B) Section 12A of the PMLA-2002 regarding the maintenance of records for cash transactions.
 - (C) Sections 46(4)(i) and 51(1) of the Banking Regulation Act, 1949.
 - (D) Clause 49 of the SEBI Listing Agreement regarding the structure of the Board of Directors.

Oct/Nov 2015

70. For a bank's compliance policy to be genuinely effective, what is the most critical requirement?
- (A) The policy must be drafted exclusively by external legal consultants without input from internal management.
 - (B) The compliance department must be completely merged with the internal audit department to reduce overhead costs.
 - (C) A clear commitment by the board of directors to promoting the values of honesty and integrity throughout the bank.
 - (D) The bank must utilize a manual, paper-based system for tracking compliance to ensure strict physical records.

May/June 2013

71. If an executive discovers financial misrepresentation and reports it to the Audit Committee, but the HR manager demotes the executive as a form of punishment, how should the company classify the HR manager's action under a standard whistle-blower policy?
- (A) Retaliation, which is prohibited, and strict disciplinary action should be taken against the relevant manager.
 - (B) Standard performance management

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- (B) Anonymous complaints received under the PIDPI resolution are investigated with utmost priority and urgency by the agency.
- (C) The identity of the complainant will not be revealed unless the complainant himself has disclosed his identity.
- (D) PIDPI aims exclusively to protect whistle-blowers reporting financial fraud within private sector multinational corporations.

May/June 2005

55. Which of the following statements relate to the whistle-blowing policy and laws in India?
- I. The whistle-blower policy is aimed at safeguarding the interest of the general public.
 - II. The Companies Act, 2013 contains provisions for whistleblowing and corporate governance.
 - III. Section 208 of the Companies Act empowers an Inspector to inspect company records.
 - IV. The Whistle-blower Protection Bill, 2011 has already come into force and replaced the Companies Act.
- Which of the above combinations is correct?
- (A) I, II, and III only
 - (B) II, III, and IV only
 - (C) I, II, and IV only
 - (D) I, III, and IV only

Oct/Nov 2022

56. Identify the correct statement concerning the whistleblowing process and the Audit Committee/CVO.
- (A) The ombudsperson/CVO or audit committee will respond to the concern within 2 days of receiving the complaint.
 - (B) The ombudsperson/CVO or audit committee will respond to the concern within 10 days of receiving the complaint.
 - (C) The ombudsperson/CVO is prohibited from sharing the status and findings of the investigation with the board of directors.
 - (D) The identity of the whistle-blower is immediately published on the company intranet to ensure transparency.

May/June 2018

57. Regulators look for specific attributes when evaluating a robust culture of compliance.

Which of the following are among those 10 typical attributes?

- I. Tone at the top
- II. Silos must be strictly maintained
- III. Cowboys (rewarding risk-taking without limits) are heavily scrutinized
- IV. Technology is utilized to automate compliance and limit human error
- V. Documentation is maintained to prove that compliance policies are working

Which of the above combinations is correct?

- (A) I, II, III, and IV only
- (B) I, III, IV, and V only
- (C) II, III, IV, and V only
- (D) I, II, IV, and V only

Oct/Nov 2016

58. Which of the following is an incorrect statement regarding the benefits of a good compliance culture?
- (A) It results in a significant reduction of both organisational and individual compliance risk.
 - (B) It ensures an increase in short-term profitability by allowing a tick-box attitude towards regulations.
 - (C) It ensures an increase in confidence among employees while they are performing their daily jobs.
 - (D) It leads to enhanced valuation and trust among investors, shareholders, and other stakeholders.

May/June 2014

59. Which of the following are considered valid areas covered under a whistleblowing policy?
- I. Any kind of Harassment or discrimination
 - II. Sharing of confidential information
 - III. Misrepresentation of financial data
 - IV. Invalid promotion
 - V. Reporting a colleague for wearing casual clothes on a formal day
- Which of the above combinations is correct?
- (A) I, II, III, and IV only
 - (B) II, III, IV, and V only
 - (C) I, III, IV, and V only
 - (D) I, II, IV, and V only

Oct/Nov 2007

60. Which of the following statements about the protection given to a whistle-blower is incorrect?

on protecting the individual from retaliation rather than providing a financial incentive for reporting misconduct.

9. (C) Rs. 50 crores

According to Rule 7 of the Companies (Meetings of Board and its Powers) Rules, 2014, companies that have borrowed more than fifty crore rupees from banks or public financial institutions must establish a formal whistle-blowing policy (vigil mechanism). This requirement ensures that entities with significant financial exposure maintain high standards of corporate governance. It provides a mechanism for internal reporting of financial irregularities.

10. (B) I and III only

Compliance failures occur when the cost of adherence is perceived as too high or when regulations conflict with market incentives and cultural norms. Vigorous monitoring actually promotes compliance, so the assertion that it leads to failure is incorrect. Instead, failure to monitor or observe rules on the books reduces the likelihood of future adherence by removing deterrence.

11. (A) Whether the compliance department is walled off from the rest of the organisation and excluded from business decisions.

When evaluating the attribute of silos, regulators examine whether the compliance function is isolated from the rest of the organization and excluded from key business decisions. A strong culture requires compliance to be integrated across departments to ensure effective risk management. Segregating compliance staff prevents them from identifying and mitigating risks inherent in day-to-day business operations.

12. (C) I, II, and IV only

A poor compliance culture is characterized by viewing internal controls as irritants, attempting to cover up underlying problems, and failing to challenge the status quo. These behaviors create risk blind spots and encourage non-compliance. In contrast, encouraging employees to speak out when they have concerns is a hallmark of a healthy and transparent environment that prioritizes ethical behavior.

13. (B) It addresses the redundancy of work and duplicative software by providing a clear process and a single point of reference.

An integrated GRC approach provides a centralized process and a single point of reference for governance, risk, and compliance activities. This prevents the redundancy of work and the use of duplicative software that often occurs when departments operate in isolation. By streamlining these initiatives, an organization can enhance its overall efficiency and ensure more consistent policy application.

14. (C) I, III, and IV only

Upon receiving an investigation from the Chief Vigilance Officer or Ombudsman, the Audit Committee must plan internal steps for the inquiry and maintain contact with relevant stakeholders. Crucially, the committee must maintain strict secrecy to protect the integrity of the whistle-blowing process. Publishing confidential information to the media would violate these protocols and undermine whistle-blower safety.

15. (D) It requires a clear demarcation of accountability of senior management, functional head, and operational head.

Accountability for compliance is not restricted to a single officer but involves a clear demarcation of responsibilities among senior management, functional heads, and operational leads. Each level of the organization plays a specific role in maintaining a robust compliance culture. The business units act as the first line of defense, while the internal audit function typically serves as the third.

16. (A) I, II, and III only

The Chief Compliance Officer is responsible for assessing compliance through testing, educating staff via training sessions, and coordinating with audit departments. These functions ensure that compliance issues are identified and addressed systematically. Subordinating the compliance department under sales management would create a conflict of interest and severely compromise the independence required to monitor and enforce regulatory standards effectively.

33. (B) III, I, II, IV

The sequence of these regulatory actions begins with the penalties related to Deccan Chronicle Holdings Limited in July 2014. This was followed by the penalty on Airtel Payments Bank in March 2018. Later, a collective penalty was imposed on seven public sector banks for current account norms, concluding with the combined penalty on fourteen banks in July 2021.

34. (C) Risk Control Self-Assessment (RCSA) Module

The Risk Control Self-Assessment module is specifically designed to allow department heads and business units to proactively identify, assess, and evaluate the effectiveness of their own internal risk controls. This module empowers front-line managers to take ownership of the risks within their operations. It provides a structured method for documenting potential vulnerabilities and monitoring the success of mitigation strategies.

35. (B) P-3, Q-2, R-4, S-1

Governance involves the oversight role of managing business risks, while Risk Management focuses on evaluating and monitoring mitigation actions structured across the business. Compliance ensures that internal controls meet governmental requirements. Finally, a GRC solution provides the integrated technology platform that standardizes these processes and consolidates data from across the organization for a unified risk view.

36. (A) Collapse in belief in law

A collapse in belief in the law occurs when the costs associated with compliance are perceived as unreasonably high or when the regulations are inflexible and unrealistic. In this scenario, the 30-day deadline and high overhaul costs for IT systems led firms to prioritize lobbying over adherence. This indicates the industry no longer views voluntary compliance as viable.

37. (A) P-2, Q-4, R-1, S-3

Equitas Small Finance Bank was penalized for rolling out mutual fund units without approval, while Union Bank of India faced issues regarding SWIFT message cybersecurity. Nagarik Sahakari Bank failed to file reports on

fake Indian currency notes. Lastly, HDFC Bank was fined in May 2021 due to irregularities in its auto loan portfolio, specifically regarding bundled GPS devices.

38. (B) Overly legalistic regulation

Overly legalistic regulation occurs when a regulatory body insists on adherence to technical rules that lack a clear substantive policy objective. This focus on form over substance can cause an industry to lose confidence in the regulator, as the requirements seem disconnected from any actual improvement in safety. This results in compliance being viewed as a burdensome exercise.

39. (A) Section 211 — Creates the Serious Fraud Investigation Office (SFIO) which has the power to arrest any person for fraud.

Section 211 of the Companies Act, 2013 established the Serious Fraud Investigation Office, which is a multi-disciplinary organization empowered to investigate complex corporate frauds and has the power to arrest individuals. While other sections deal with investigations and inspections, Section 211 specifically creates this specialized body to handle high-level financial crimes that require multi-disciplinary expertise.

40. (C) Cowboys (Rewarding risk-taking without limits)

Rewarding staff based solely on the volume of loans without considering subsequent defaults or compliance violations is a sign of a “cowboy” culture. This attribute describes an environment where risk-taking is incentivized without appropriate limits or consequences for ignoring protocols. Regulators evaluate this because it often leads to systemic failures and encourages employees to prioritize short-term personal gain.

41. (D) Protected Individual — A person who raises a concern with malicious intent and not in a state of good faith.

Whistle-blowing protections are specifically designed for individuals who act in good faith. A person who raises a concern with malicious intent or for personal gain is not considered a protected individual under standard policy guidelines. The goal of these

organization reduces the labor-intensive effort required to consolidate data from various siloed and conflicting sources.

25. (A) An external media outlet

A standard whistle-blower policy is an internal mechanism consisting of four primary components: the whistle-blower, the wrongful practice being reported, the authority receiving the report, and the governing policy itself. While external media might be involved in public disclosures, they are not a standard structural component of an organization's internal whistle-blowing framework designed for confidential and secure reporting.

26. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Regulators prioritize documentation because it provides tangible proof that compliance policies are being actively tested and implemented. Consistent record-keeping and clearly documented workflows serve as evidence of a strong compliance culture. Without these records, an organization cannot demonstrate its adherence to regulatory standards during audits, regardless of how robust its theoretical policies might appear on paper.

27. (A) Tone at the top

Regulators consider the "tone at the top" to be the most critical attribute of a compliance culture. It refers to the commitment of senior management and the board of directors to ethical behavior and regulatory adherence. When leadership demonstrates these values through actions rather than just words, it sets a standard for the entire organization to follow.

28. (D) Power (Independence and respect of the CCO)

In this scenario, the Chief Compliance Officer's authority is undermined because senior management prioritizes revenue over compliance warnings. This reflects a lack of independence and respect for the compliance function. For a compliance program to be effective, the CCO must have the power to stop risky activities and must be supported by the board during disputes.

29. (B) People who feel they are treated unfairly by a regulatory agency will often respond by refusing to comply with regulatory requirements. Procedural injustice occurs when stakeholders perceive regulatory processes as biased or unfair. This perception often leads to a breakdown in cooperation and a deliberate refusal to comply with requirements. When individuals or firms lose faith in the fairness of the regulator, they are more likely to view non-compliance as a legitimate response to an unjust system.

30. (C) The Ombudsperson / Chief Vigilance Officer (CVO) or Audit Committee.

Standard whistle-blowing protocols dictate that if initial internal channels like Human Resources are unhelpful or involved in the misconduct, the employee should escalate the complaint to an independent authority. This typically includes the Ombudsperson, the Chief Vigilance Officer, or the Audit Committee. These bodies are designed to handle sensitive reports independently from day-to-day management for fair investigations.

31. (D) To ensure that an organisation has the internal controls to meet requirements from governmental bodies or policies.

The compliance component of the GRC framework focuses on establishing and maintaining internal controls necessary to meet requirements set by governmental bodies, regulators, and internal policies. It ensures the organization operates within legal and ethical boundaries. This process protects the entity from legal penalties and reputational damage by verifying that all activities adhere to relevant standards.

32. (D) The Central Vigilance Commission (CVC)

The Public Interest Disclosure and Protection of Informers resolution designates the Central Vigilance Commission as the primary agency authorized to receive written disclosures regarding corruption in Central Government departments. The CVC is responsible for protecting the identity of the whistle-blower and ensuring that appropriate investigations are conducted. It serves as a crucial oversight body for public sector integrity.

CHAPTER 31

Compliance Function and Role of Chief Compliance Officer in NBFCs

May/June 2005

1. During the preparation of the annual compliance programme review, the Senior Management of a Non-Banking Financial Company (NBFC) details compliance failures and regulatory guideline tracking. However, they omit documenting the progress in rectifying significant deficiencies pointed out in a recent RBI inspection report. Under the Compliance Programme guidelines, is this omission acceptable?
 - (A) Yes, because RBI inspection reports are confidential and excluded from internal reviews.
 - (B) No, the review must explicitly cover the progress in rectifying inspection deficiencies.
 - (C) Yes, provided the audit committee is verbally informed of the deficiencies found.
 - (D) No, but the omission is acceptable if external auditors have already noted the issues.

Oct/Nov 2022

2. Identify the incorrect statement concerning the regulation of Non-Banking Financial Companies (NBFCs) not availing public funds and not having customer interface.
 - (A) They bear a different risk profile and hence deserve a differential regulatory treatment.
 - (B) Reserve Bank will come out with separate regulations for such NBFCs in due course.
 - (C) They are mandated to transition to the Upper Layer within 12 months.
 - (D) Till separate regulations are issued, the extant regulations will continue to apply.

May/June 2018

3. Why was a scale-based regulatory approach linked to the systemic risk contribution of

Non-Banking Financial Companies (NBFCs) deemed necessary?

- (A) Due to the significant increase in the size and interconnectedness of the NBFC sector.
- (B) To implement a uniform reduction in the capital adequacy requirements for all NBFCs.
- (C) To facilitate a mandatory merger of non-deposit taking NBFCs into the banking structure.
- (D) To resolve the requirement for all NBFCs to maintain equal statutory liquidity ratios.

Oct/Nov 2016

4. At what minimum frequency must the Senior Management of a Non-Banking Financial Company (NBFC) carry out an exercise to identify and assess the major Compliance risk facing the entity?
 - (A) Once a month
 - (B) Once a quarter
 - (C) Once a half-year
 - (D) Once a year

May/June 2014

5. What is the prescribed asset size threshold below which non-deposit taking Non-Banking Financial Companies (NBFCs) are classified under the Base Layer?
 - (A) ₹ 500 crore
 - (B) ₹ 1000 crore
 - (C) ₹ 5000 crore
 - (D) ₹ 10000 crore

Oct/Nov 2007

6. During an annual review, the internal audit team of a Non-Banking Financial Company (NBFC) identifies a significant failure in adhering to statutory reporting timelines. According to the compliance framework,

policies is to encourage honest reporting of genuine wrongdoing, not to provide a shield for intentional harassment.

42. (B) Workplace behavior meeting ethical and legal norms, shaped by organizational values and assumptions.

Compliance culture is defined as the shared values, assumptions, and behaviors within an organization that ensure workplace activities meet ethical and legal norms. It goes beyond mere checklists and audits, reflecting the actual daily conduct of employees. A strong culture is shaped by the institution's commitment to integrity and the consistent reinforcement of compliant behavior everywhere.

43. (A) I only

For a compliance function to be effective, it must possess sufficient authority, independence, and access to the Board of Directors. It also needs adequate resources to perform its duties. Frequent intervention by management in the internal operations of the compliance function would compromise its independence and prevent it from objectively monitoring the organization's adherence to regulatory requirements.

44. (C) A person who raises a concern about wrongdoing occurring in an organisation or body of people.

A whistle-blower is defined as any person who raises a concern about wrongdoing occurring within an organization or a body of people. This individual brings attention to illegal, unethical, or incorrect activities that might otherwise remain hidden. Whistle-blower policies provide these individuals with a safe and confidential channel for reporting such issues without the fear of professional retaliation.

45. (B) II only

A strong compliance culture provides numerous benefits, including the ability to attract and retain talent by ensuring a workplace characterized by ethical behavior and engagement. However, the top benefit of stress testing is generally reported as providing a forward-looking view of risk, rather than a backward-looking one. Stress testing helps organizations prepare for future adverse scenarios effectively.

46. (C) Committee on Frauds and Malpractices in Banks (Ghosh Committee)

The Reserve Bank of India introduced the system of designating a "Compliance Officer" in banks in August 1992 following the recommendations of the Ghosh Committee. This committee focused on addressing frauds and malpractices within the banking sector. The establishment of this role was a key step in formalizing the compliance function and ensuring dedicated oversight for regulatory adherence.

47. (C) I and III only

Senior management is primarily responsible for ensuring adherence to compliance policies and minimizing risk. Furthermore, maintaining an effective culture requires the continuous communication of expectations across all levels of the bank. However, general standards should not be merged with specific rules in a way that avoids distinction; rather, clear and specific guidance is necessary for different groups.

48. (D) Deccan Chronicle Holdings Ltd.

In July 2014, the Reserve Bank of India penalized twelve banks for failing to comply with regulatory guidelines regarding the management of loan and current accounts. These violations were specifically related to the accounts of Deccan Chronicle Holdings Limited. The penalties highlighted significant deficiencies in the banks' oversight and due diligence processes when dealing with large corporate borrowers.

49. (B) II and III only

A robust culture is supported by a zero-tolerance policy for misconduct and a "living" compliance program that is tailored to the specific risks of the organization. However, senior management conducting a cost-benefit analysis to decide whether to engage in an illegal transaction is a sign of poor culture. Ethical behavior should be non-negotiable and not subject to financial calculations.

50. (C) Assessing the bank's activities in advance to prevent non-compliant actions from being carried out.

An ex ante and forward-looking compliance function focuses on assessing the bank's planned activities and transactions in advance to

- 17.** (B) The company will establish a mechanism for employees to report to the management concerns about unethical behaviour. SEBI's Clause 49 mandates that listed companies establish a mechanism for employees to report concerns regarding unethical behavior or violations of the code of conduct. This mechanism must provide adequate safeguards against victimization and allow direct access to the Chairman of the Audit Committee in exceptional cases. Such transparency is essential for maintaining investor confidence and accountability.
- 18.** (D) I, II, III, IV, and V
The Reserve Bank of India has historically imposed various penalties for regulatory contraventions, including fines related to the Deccan Chronicle Holdings Limited loan accounts and KYC violations. Specific instances involve penalties on Airtel Payments Bank, Equitas Small Finance Bank, and HDFC Bank for diverse issues like mutual fund rollout and auto loan irregularities. These actions demonstrate regulatory commitment.
- 19.** (A) Ensuring compliance standards are kept strictly confidential to avoid public scrutiny. Effective compliance programs rely on transparency and the implementation of written policies, procedures, and standards of conduct. Standards should be communicated clearly through training and education rather than kept confidential. Furthermore, responding promptly to detected offenses and taking corrective action are critical for maintaining the program's integrity and demonstrating the organization's commitment to following essential regulatory requirements.
- 20.** (A) I, II, III, and IV only
Common reasons for compliance failures include a lack of understanding of complex laws, overly legalistic regulations, and deterrence failure where rewards for non-compliance outweigh detection risks. Procedural injustice also plays a significant role when people feel the system is unfair. Alignment with market incentives generally promotes compliance, so a total lack of alignment leads to failure.
- 21.** (D) Procedural injustice indicates that people who believe they are dealt with fairly by a regulatory system are more likely to refuse to comply. Procedural injustice actually suggests that individuals who feel they are treated unfairly by a regulatory system are less likely to comply with its requirements. Fairness and transparency in regulatory dealings encourage voluntary adherence. The other descriptions correctly identify how complexity, high costs, and lack of perceived purpose in technical rules can lead to widespread non-compliance and loss of confidence.
- 22.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Compliance must integrate with other risk areas because banking risks are deeply interconnected. For instance, credit risk often carries implications for interest rate risk, and operational failures frequently lead to compliance violations. Because these risks do not exist in isolation, the compliance function must communicate effectively across the enterprise to ensure that all overlapping risk factors are managed holistically.
- 23.** (B) Sub-Cultures unaligned with organisational culture
Regulators look for sub-cultures that are aligned with the overall organizational culture, as misaligned pockets can undermine compliance efforts. Key attributes include strong leadership from the top, active employee buy-in, and a compliance program that is "living" and adaptable. Maintaining unaligned sub-cultures is a sign of weakness and fragmentation within an organization rather than a robust culture.
- 24.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Taking an integrated GRC approach significantly lowers compliance costs by streamlining disparate initiatives into a unified framework. This eliminates the need for redundant software systems, hardware infrastructure, and repetitive training sessions across different departments. By creating a single version of the truth, the

reduction of organizational risk. Adopting a tick-box approach to regulations is a sign of a poor culture that can lead to significant long-term losses.

59. (A) I, II, III, and IV only

Whistle-blowing policies are designed to handle serious matters such as harassment, unauthorized sharing of confidential information, financial misrepresentation, and irregular promotions. These issues represent significant breaches of ethical and legal conduct. Reporting a colleague for minor personal choices, such as wearing casual clothes on a formal day, does not fall under the scope of professional wrongdoing addressed here.

60. (C) The organisation can discriminate against an employee regarding salary if they are helping in the investigation process.

Whistle-blower policies explicitly prohibit any form of discrimination or retaliation against employees who participate in investigations or report concerns in good faith. This includes any negative impact on salary, promotion, or work quality. Protecting the reporter's confidentiality and taking strict disciplinary action against those who retaliate are essential components of a functional and ethical whistle-blowing system.

61. (A) I, II, III, and IV only

The PIDPI Resolution designates the CVC to receive complaints, ignores anonymous submissions, and protects the identity of the reporter. It also allows the agency to use investigative support from the CBI or police. However, the suggestion that NGOs are strictly prohibited from making disclosures is incorrect, as the framework allows broad public interest disclosures regarding government corruption.

62. (C) Focusing on long-term interests of the entity over short-term personal profitability.
Prioritizing the long-term interests of the entity over short-term personal profitability is a hallmark of a strong, healthy compliance culture. Signs of poor culture include a tick-box attitude, covering up problems, and the dominance of individuals who cannot be challenged. A robust culture ensures that decisions are made based on institutional

well-being and ethical standards rather than individual gains.

63. (C) Assertion (A) is true, but Reason (R) is false.

It is true that the PIDPI resolution mandates that anonymous complaints should not be acted upon. However, the reason for requiring the complainant's identity is not to publish it in newspapers, which would defeat the purpose of protection. Instead, the identity is required to verify the authenticity of the report while maintaining strict confidentiality to safeguard the whistle-blower.

64. (D) Customer Relationship Management (CRM) Module

Customer Relationship Management is a standard business function focused on sales and customer interaction, but it is not a module within a GRC application. GRC systems focus on incident management, risk control self-assessment, and key risk indicators to manage governance, risk, and compliance. While a CRM handles external client data, GRC modules are internal tools.

65. (D) Assertion (A) is false, but Reason (R) is true.

Preventive compliance does not wait until after transactions are executed; rather, it assesses activities in advance to prevent violations from occurring. The assertion is therefore false. The reason provided is true because an effective compliance function must be ex-ante and forward-looking, moving beyond a purely reactive role that relies on identifying errors after they have already happened.

66. (C) Lack of monetary rewards for reporting
According to the Association of Certified Fraud Examiners, employees fail to report misconduct because they fear retaliation, believe no corrective action will be taken, or are unsure of the contact process. The lack of monetary rewards is not cited as a primary reason for silence. Most employees are motivated by the desire for a fair workplace rather than financial gain.

- 67.** (B) Treating internal control frameworks as an irritant and breaching them at will for immediate short-term benefits.

The regional sales head's explicit statement that the compliance framework is an "irritant" delaying bonuses is a clear sign of poor culture. This behavior involves deliberately breaching controls for short-term financial gains. Such an attitude devalues the importance of risk management and signals to the rest of the staff that achieving targets is more important than following protocols.

- 68.** (D) To give stakeholders a platform to raise concerns against wrongdoing and protect employees against retaliation.

The fundamental purpose of a whistle-blower policy is to provide stakeholders with a secure platform to report wrongdoing and to protect those reporters from retaliation. It is an internal governance tool designed to uncover fraud and unethical behavior. It is not intended to serve as a general customer complaint desk or a management tool for terminating poor performers.

- 69.** (C) Sections 46(4)(i) and 51(1) of the Banking Regulation Act, 1949.

When the Reserve Bank of India identifies deficiencies in regulatory compliance, such as skipping KYC procedures, it exercises its power under the Banking Regulation Act, 1949. Specifically, Sections 46(4)(i) and 51(1) authorize the regulator to impose financial penalties on banking institutions. These sections provide the necessary enforcement mechanism to ensure that banks maintain high standards of operational integrity.

- 70.** (C) A clear commitment by the board of directors to promoting the values of honesty and integrity throughout the bank.

The effectiveness of a compliance policy depends most heavily on the commitment of the board of directors to honesty and integrity. This "tone at the top" ensures that policies are not just theoretical documents but are actively supported and enforced throughout the organization. Without this high-level commitment, even sophisticated systems will fail to foster a genuine compliance culture.

- 71.** (A) Retaliation, which is prohibited, and strict disciplinary action should be taken against the relevant manager.

Demoting an employee for reporting financial misrepresentation is a classic example of retaliation. Most whistle-blower policies strictly prohibit any form of victimization or negative career impact resulting from a good-faith report. In such cases, the organization should take disciplinary action against the manager responsible. This protection is vital for ensuring that employees feel safe enough to report serious misconduct.

- 72.** (A) II, III, IV, I

The timeline of regulatory developments begins with the RBI's introduction of Compliance Officers in 1992. This was followed by the PIDPI Resolution in 2004. Subsequently, the Basel Committee on Banking Supervision issued its high-level paper on compliance risk. Finally, the Whistle-blower Protection Bill represents a more recent legislative effort. This progression reflects the increasing focus on formalizing compliance.

- (B) Take an integrated Governance, Risk and Compliance (GRC) approach deploying a single system.

To address the issues of redundant work and fragmented views of risk caused by siloed software, the institution should adopt an integrated GRC approach. Using a single system allows for consolidated data and standardized processes across IT, audit, and regulatory teams. This integration provides a "single version of the truth," which improves decision-making efficiency and significantly reduces maintenance costs.

- 74.** (A) P-2, Q-3, R-4, S-1

Integration across the enterprise requires compliance to communicate well with all risk areas. A living compliance program is one that is tailored, tested, and modified rather than being a stagnant checklist. Resources are evaluated by checking the disparity between investments for revenue versus compliance. Employee buy-in is achieved when the culture is embedded in staff through zero-tolerance policies.

- 75.** (D) It significantly reduces compliance costs by eliminating redundant work and providing a single version of the truth.

The primary benefit of an integrated GRC system is the significant reduction in compliance costs achieved by removing redundant tasks and consolidating data. By providing a “single version of the truth,” it allows management and auditors to access consistent information, which improves the speed and accuracy of reporting. This streamlined approach replaces fragmented processes that are prone to error.

- 76.** (A) P-3, Q-4, R-1, S-2

Failure to understand the law occurs when requirements are too complex. Overly legalistic regulation is characterized by a focus on technical rules without clear substantive purposes. Failure to monitor happens when existing rules are not observed vigorously by authorities. Finally, deterrence failure occurs when the potential rewards for breaking rules are high while detection probabilities remain significantly low.

- 77.** (B) Regulation is at odds with market incentives or cultural practices observed within the specific industry sector.

When a new regulation conflicts with established market practices or cultural norms, businesses often find it easier to lobby against the rule than to change their fundamental operations. This cause of failure highlights the importance of regulators understanding industry realities. If a regulation is perceived as fundamentally incompatible with how a market functions, widespread non-compliance is a likely outcome.

- 78.** (B) P-4, Q-3, R-1, S-2

A whistle-blower is the person raising a concern about wrongdoing. A wrongful practice involves serious disregards for law or human rights. The authority is the independent senior receiver of the report who follows a defined escalation process. Finally, the policy itself is the internal document that allows individuals to report these improper practices to designated individuals safely.

- 79.** (A) Tone from the top (Value demonstration in actions)

While the bank has a written policy, the CEO’s repeated overrides show that the values of the organization are not being demonstrated through leadership actions. This lack of a strong “tone at the top” undermines the entire compliance framework. For a culture to be robust, senior management must lead by example, adhering to the same protocols they establish.

- 80.** (C) Paragraph 7 — The designated agency may give suitable directions for the protection of the whistle-blower to the concerned public servant or public authority.

Paragraph 7 of the PIDPI resolution empowers the designated agency to issue directions for the protection of a whistle-blower to the relevant public authority. This ensures that the person making the disclosure is safeguarded from potential harassment or victimization by their superiors. This legal provision is a cornerstone of the resolution’s intent to encourage the reporting of corruption.

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prevent non-compliant actions. This proactive approach aims to identify and mitigate risks before they manifest as actual violations. It shifts the focus from merely reacting to errors identified in post-mortem audits to preventing those errors through early intervention.

51. (A) I and II only

The compliance function is responsible for identifying and prioritizing major issues and reviewing departmental policies based on implementation experience. These tasks ensure that the organization remains aligned with evolving regulations. Establishing sub-cultures that are deliberately misaligned with the main organizational culture is counterproductive and harmful to the overall integrity and risk management framework of the entire entity.

52. (D) Rewarding risk-taking without limits, basing rewards solely on short-term financial performance.

The term “Cowboys” refers to a culture where risk-taking is rewarded without regard for established limits or protocols. In such environments, rewards are often based purely on short-term financial performance, which encourages employees to bypass compliance and ethical standards. Regulators scrutinize this behavior because it fosters an environment prone to systemic failures and significant operational and reputational risks.

53. (A) I, II, and III only

An integrated GRC approach enhances organizational effectiveness by streamlining processes and providing a single version of the truth for management and auditors. It also significantly reduces costs by eliminating duplicative software and hardware. In contrast, managing compliance initiatives in isolated silos is what leads to the very redundancies and fragmentation that integration is designed to prevent.

54. (C) The identity of the complainant will not be revealed unless the complainant himself has disclosed his identity.

A fundamental provision of the Public Interest Disclosure and Protection of Informers resolution is that the designated agency must protect the identity of the complainant. This

identity remains confidential unless the whistleblower chooses to disclose it themselves. Furthermore, the resolution specifically states that anonymous complaints will not be acted upon, emphasizing the importance of verified but protected reporting.

55. (A) I, II, and III only

Whistle-blowing policies in India aim to safeguard the public interest, and the Companies Act, 2013 provides the legal framework for corporate governance and internal reporting. Section 208 of the Act specifically empowers inspectors to examine company records. While a Whistle-blower Protection Bill exists, the statement that it has already replaced the Companies Act is currently incorrect.

56. (A) The ombudsperson/CVO or audit committee will respond to the concern within 2 days of receiving the complaint.

Under standard whistle-blowing procedures, the designated authority, such as the Ombudsperson, Chief Vigilance Officer, or Audit Committee, is typically expected to acknowledge or respond to a concern within a very short timeframe, often two days. This prompt response is crucial for maintaining trust. Protecting the reporter's identity is paramount, so publishing their name would be a violation.

57. (B) I, III, IV, and V only

Regulators evaluate compliance culture based on several key attributes, including leadership from the top, scrutiny of excessive risk-taking, the use of automation technology, and the maintenance of thorough documentation. Maintaining strict silos is actually considered a negative trait, as it prevents the cross-enterprise communication necessary for effective risk management. A robust culture requires integration and transparency across departments.

58. (B) It ensures an increase in short-term profitability by allowing a tick-box attitude towards regulations.

A good compliance culture prioritizes ethical standards and legal adherence over a simple tick-box attitude or short-term profitability. While it enhances long-term valuation and stakeholder trust, its primary goal is the

what is the required response from the Senior Management regarding this issue?

- (A) Wait until the next annual board meeting to present the findings casually to all the directors.
- (B) Conceal the findings to protect the NBFC's reputation in the competitive financial services market.
- (C) Report promptly to the Board on the failure while ensuring appropriate remedial or disciplinary action.
- (D) Only inform the external auditors at the end of the financial year for inclusion in the report.

May/June 2025

7. Consider the following statements regarding the Middle Layer of Non-Banking Financial Companies (NBFCs):
- I. It consists of all deposit-taking NBFCs (NBFC-Ds), irrespective of asset size.
 - II. It consists of non-deposit taking NBFCs with an asset size of ₹ 1000 crore and above.
 - III. It includes Housing Finance Companies (HFCs) and Infrastructure Finance Companies (NBFC-IFCs).
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

Oct/Nov 2019

8. Consider the following activities regarding the responsibilities of the Compliance Function in a Non-Banking Financial Company (NBFC):
- I. Performing sufficient and representative Compliance testing.
 - II. Periodically circulating instances of compliance failures among staff with preventive instructions.
 - III. Managing the day-to-day liquidity risk and asset-liability mismatches.
 - IV. Attending to compliance with directions from other regulators where entity activities are not limited to RBI regulation.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III

- (B) I, II, and IV
- (C) II, III, and IV
- (D) I, III, and IV

May/June 2009

9. Identify the incorrect statement regarding the constitution of the Upper Layer in the Non-Banking Financial Company (NBFC) regulatory framework.
- (A) The scoring methodology comprises quantitative parameters at 30% and qualitative parameters at 70%.
 - (B) It comprises NBFCs specifically identified by the Reserve Bank as warranting enhanced regulatory requirements and oversight.
 - (C) The top ten eligible NBFCs in terms of asset size shall always reside in the Upper Layer to ensure systemic stability.
 - (D) It includes NBFCs added to the set by supervisors using supervisory judgment regarding their potential risk impact.

Oct/Nov 2011

10. Given below are two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements and select the correct answer using the options provided.
- Assertion (A): The Chief Compliance Officer (CCO) shall be the nodal point of contact between the Non-Banking Financial Company (NBFC) and the regulators / supervisors.
- Reason (R): The Compliance Department may serve as a reference point for the staff from operational departments for seeking clarifications on various regulatory and statutory guidelines.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

May/June 2010

11. Which of the following pairs correctly matches the Non-Banking Financial Company (NBFC)

is required.

May/June 2008

- 23.** Match the revised exposure limits under Prudential Guidelines in List I with their respective percentage ceilings in List II.

List I: (Exposure Type)

- P. Revised exposure limit for a single borrower/party
 Q. Revised exposure limit for a single group of borrowers/parties
 R. Extant lending limit for a single borrower/party (as % of Owned Fund)
 S. Extant total limit for a single group of borrowers/parties (as % of Owned Fund)

List II: (Limit Ceiling)

1. 40% (Tier I Capital)
 2. 25% (Owned Fund)
 3. 25% (Tier I Capital)
 4. 15% (Owned Fund)
 (A) P-1, Q-4, R-2, S-3
 (B) P-3, Q-1, R-4, S-2
 (C) P-2, Q-3, R-1, S-4
 (D) P-4, Q-2, R-3, S-1

Oct/Nov 2013

- 24.** Why does the regulatory framework necessitate the constitution of a Risk Management Committee (RMC) specifically focusing on liquidity and overall risks in Non-Banking Financial Companies (NBFCs)?

- (A) To ensure the Board focuses efficiently on evaluating and managing the overall risks faced.
 (B) To replace the Internal Audit committee entirely and manage all financial audit requirements.
 (C) To act as a subsidiary committee that only monitors retail customer complaints and feedback.
 (D) To delegate the final decision-making authority of loan approvals away from the main Board.

May/June 2015

- 25.** A mid-sized Non-Banking Financial Company (NBFC) is processing a commercial real estate loan. The borrower notes that local government clearances for the project are pending but expects them shortly. The credit officer wishes to sanction the loan and disburse the

funds immediately. According to prudential guidelines, what is the correct action?

- (A) Sanction is permitted, but disbursements occur only after the borrower obtains clearances.
 (B) The loan cannot be sanctioned at all until all necessary government clearances are obtained.
 (C) The loan can be sanctioned and disbursed immediately, provided an indemnity bond is signed.
 (D) The loan processing must be halted entirely and the matter reported to the Reserve Bank.

Oct/Nov 2012

- 26.** How does the mandate for an independent Compliance Function enhance the overall governance structure of a Non-Banking Financial Company (NBFC) in the Middle and Upper Layers?

- (A) It consolidates all risk management and sales functions under one single senior executive.
 (B) It ensures strict observance of requirements and prevents conflict, serving as a critical pillar.
 (C) It provides a mechanism to legally bypass complex RBI regulations through internal waivers.
 (D) It restricts the Board's ability to create new products, thereby limiting market risk exposure.

May/June 2011

- 27.** Which statement correctly describes the requirement for Internal Exposure Limits for Non-Banking Financial Companies in the Upper Layer (NBFC-UL)?

- (A) The Board determines limits for important sectors and establishes a limit for the NBFC sector.
 (B) The Board must solely focus on establishing limits for capital markets and commercial real estate.
 (C) The Reserve Bank dictates the exact internal exposure limits for all sectors on a quarterly basis.
 (D) Internal exposure limits are entirely optional and managed by the firm's external audit team.

- (B) The Board experience requirement applies exclusively to NBFCs in the Upper Layer.
- (C) The mandate for professional experience aims to ensure better management of the affairs of NBFCs.
- (D) Professional experience is considered necessary for managing NBFC affairs effectively.

Oct/Nov 2021

18. Which of the following most accurately describes the relationship between the Internal Audit Function and the Compliance Function in a Non-Banking Financial Company (NBFC)?
- (A) The Compliance Function conducts regular internal audits of the Internal Audit Department itself.
 - (B) The Internal Audit Function completely replaces the need for a separate Compliance Function.
 - (C) Compliance risk is included in audit assessment, and the function is subject to regular audit.
 - (D) The Internal Audit Function only reviews compliance if requested by the external regulators.

May/June 2024

19. Consider the following statements regarding the Internal Capital Adequacy Assessment Process (ICAAP) for Non-Banking Financial Companies (NBFCs):
- I. The internal assessment shall be on similar lines as prescribed for commercial banks under Pillar 2.
 - II. Pillar 2 capital will not be strictly insisted upon by supervisors.
 - III. Internal capital assessment shall factor in credit risk, market risk, and operational risk.
 - IV. The methodology for assessment shall be proportionate to the scale and complexity of operations.
 - V. It will facilitate active dialogue between supervisors and NBFCs on risk assessment and mitigation.
- Which of the above statement(s) is/are correct?
- (A) I, II, III, and IV
 - (B) II, III, IV, and V

- (C) I, III, IV, and V
- (D) I, II, III, IV, and V

Oct/Nov 2008

20. Match the criteria for the Chief Compliance Officer (CCO) in List I with their specific regulatory requirements in List II.
- List I: (Criteria)
- P. Tenure
 - Q. Rank
 - R. Selection Process
 - S. Stature
- List II: (Regulatory Requirement)
- 1. Minimum fixed term of not less than 3 years
 - 2. Position not below two levels from the CEO
 - 3. Decisions based on recommendations by a committee constituted by the Board
 - 4. Ability to exercise judgment independently and interact with regulators directly
- (A) P-2, Q-4, R-1, S-3
 - (B) P-3, Q-1, R-4, S-2
 - (C) P-4, Q-3, R-2, S-1
 - (D) P-1, Q-2, R-3, S-4

May/June 2006

21. What is the minimum Common Equity Tier 1 (CET 1) capital requirement prescribed specifically for Non-Banking Financial Companies in the Upper Layer (NBFC-UL) as a percentage of Risk Weighted Assets?
- (A) 5 per cent
 - (B) 7 per cent
 - (C) 9 per cent
 - (D) 12 per cent

Oct/Nov 2017

22. Identify the incorrect pairing regarding the appointment and criteria of the Chief Compliance Officer (CCO) in a Non-Banking Financial Company (NBFC).
- (A) Conduct - Must have a clean track record and unquestionable integrity.
 - (B) Skills - Good understanding of industry, risk management practices, and legal requirements.
 - (C) Reporting Line - Strictly reports to the business verticals to ensure operational alignment.
 - (D) Removal - Prior intimation to the Senior Supervisory Manager of the Reserve Bank

NODIA

May/June 2023

- 33.** 'Gamma NBFC' operates with 15 branches across three states. The Board is reviewing its IT infrastructure strategy. Under the governance guidelines, what is the technological mandate for Gamma NBFC?
- (A) It must transition all operations to manual ledgers to prevent potential cyber security risks.
- (B) It is mandated to adopt a CBS with a glide path of 3 years from October 01, 2022.
- (C) It has the option to implement CBS only if its total branch network exceeds 50 branches.
- (D) It must outsource its IT framework entirely to a third-party vendor approved by the Reserve Bank.

Oct/Nov 2018

- 34.** Consider the following statements about the 'Fit and Proper' certification for the Chief Compliance Officer (CCO) in a Non-Banking Financial Company (NBFC):
- I. It is provided by the MD & CEO of the NBFC.
- II. It confirms that the person meets the prescribed supervisory requirements.
- III. It must be provided to the Senior Supervisory Manager of the Reserve Bank.
- Which of the above statement(s) is/are correct?
- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

May/June 2007

- 35.** Which of the following is NOT explicitly mentioned as an additional disclosure in the Annual Financial Statements for Non-Banking Financial Companies (NBFCs) with effect from March 31, 2023?
- (A) Exact remuneration amounts paid to all mid-level managerial staff.
- (B) Corporate Governance report containing composition and category of directors.
- (C) Disclosure on modified opinion expressed by auditors.
- (D) Impact of auditors' modified opinion on various financial items.

Oct/Nov 2025

- 36.** Consider the following breaches or divergences for review under governance protocols for Non-Banking Financial Companies (NBFCs):
- I. Divergence in asset classification above a certain threshold decided by RBI.
- II. Breaches in terms of covenants in respect of loans availed by the NBFC.
- III. Items of income and expenditure of exceptional nature.
- IV. Incidence of default on debt securities issued by the NBFC.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III
- (B) II, III, and IV
- (C) I, III, and IV
- (D) I, II, III, and IV

May/June 2012

- 37.** What is the regulatory obligation for a Non-Banking Financial Company in the Upper Layer (NBFC-UL) in the event an Independent Director is removed or resigns before the completion of their normal tenure?
- (A) The NBFC must immediately suspend all of its ongoing lending operations.
- (B) The NBFC must appoint a replacement within 48 hours without consultation.
- (C) The NBFC is required to automatically downgrade itself to the Middle Layer.
- (D) The NBFC shall be required to report the event to the supervisors.

Oct/Nov 2014

- 38.** Consider the following statements related to the Risk Management Committee (RMC) of a Non-Banking Financial Company (NBFC):
- I. It is mandated for NBFC-BL (Base Layer) to constitute an RMC.
- II. It can be constituted either at the Board or executive level.
- III. It is responsible for evaluating the overall risks faced by the NBFC.
- IV. Its scope includes the evaluation of liquidity risk.
- V. It operates independently and reports directly to the Board.
- Which of the above statement(s) is/are correct?
- (A) I, II, III, IV, and V
- (B) I, III, IV, and V

Oct/Nov 2020

28. Identify the incorrect statement regarding the mechanisms required under the Compliance Framework for Non-Banking Financial Companies (NBFCs).

- (A) The Compliance Policy must outline the approval process for all new processes and products by the Compliance Department.
- (B) A mechanism for dissemination of information on regulatory prescriptions among staff is required.
- (C) Staff accountability for major Compliance failures does not need to be examined if the financial loss is minimal.
- (D) The Compliance Function must periodically circulate instances of compliance failures along with preventive instructions.

May/June 2022

29. Which of the following pairs correctly matches the governance mechanism with its specific mandate or timeline?

- (A) Independent Director - Can be on the Board of a maximum of five NBFC-MLs at the same time.
- (B) CBS - Mandated for NBFCs with 10+ branches with a 3-year glide path from October 01, 2022.
- (C) Risk Management Committee - Must be composed exclusively of independent directors at all times.
- (D) Key Managerial Personnel - Allowed to hold office in multiple NBFC-ULs without any restriction.

Oct/Nov 2023

30. When Non-Banking Financial Companies (NBFCs) are specifically added to the Upper Layer by supervisors using supervisory judgment, what is the underlying premise for this regulatory action?

- (A) The NBFC has voluntarily requested a higher compliance burden to attract more investors.
- (B) The NBFC has completely failed its internal audit and requires immediate liquidation.
- (C) The Reserve Bank has determined that the NBFC warrants enhanced regulatory requirements.
- (D) The NBFC has successfully eliminated all its Non-Performing Assets in the preceding

year.

May/June 2016

31. Given below are two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements and select the correct answer using the options provided.

Assertion (A): Key Managerial Personnel (KMP) shall not hold any office in any other Middle Layer (NBFC-ML) or Upper Layer (NBFC-UL) company, except for directorship in a subsidiary.

Reason (R): KMPs are completely restricted from assuming directorships in Base Layer NBFCs (NBFC-BL) to prevent conflicts of interest across all regulatory layers.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2009

32. Match the specific governance provision in List I with its corresponding descriptor in List II.

List I: (Governance Provision)

- P. Whistle blower mechanism
- Q. Disclosure on modified opinion
- R. Independent Director limits
- S. Corporate Governance report

List II: (Descriptor)

- 1. Addressed by auditors, including views of management on audit qualifications.
- 2. Formulated for directors and employees to report genuine concerns.
- 3. Contains composition and category of directors, shareholding of non-executive directors.
- 4. Restricted to board positions on not more than three NBFC-ML/ULs.

- (A) P-1, Q-4, R-2, S-3
- (B) P-3, Q-2, R-4, S-1
- (C) P-4, Q-3, R-1, S-2
- (D) P-2, Q-1, R-4, S-3

NODIA

and NBFC-Peer to Peer Lending Platforms.

- (D) It includes Standalone Primary Dealers and Core Investment Companies in all cases.

May/June 2018

45. Consider the following responsibilities relating to the Compliance Function:

- I. Identifying and assessing major Compliance risk facing the NBFC at least once a year.
- II. Prescribing the periodicity for review of Compliance risk.
- III. Ensuring an appropriate Compliance Policy is put in place and implemented.
- IV. Formulating plans to manage the identified major compliance risk.
- V. Reporting promptly on any material Compliance failure while ensuring appropriate action is taken.

Which of the above specifically fall under the purview of Senior Management?

- (A) I, IV, and V
- (B) II, III, and IV
- (C) I, II, III, IV, and V
- (D) I, III, and V

Oct/Nov 2016

46. Which of the following activities does NOT qualify a Non-Banking Financial Company (NBFC) to automatically remain in the Base Layer irrespective of its asset size?

- (A) NBFC-Peer to Peer Lending Platform (NBFC-P2P)
- (B) Non-Operative Financial Holding Company (NOFHC)
- (C) Infrastructure Debt Fund - Non-Banking Financial Companies (IDF-NBFCs)
- (D) NBFCs not availing public funds and not having any customer interface

May/June 2014

47. What central role is the Compliance Function expected to play regarding new products and processes within a Non-Banking Financial Company (NBFC)?

- (A) Designing the marketing and sales strategy for the new products to ensure maximum market reach.
- (B) Maximizing the profit margins of the newly introduced processes through efficient resource allocation.

- (C) Determining the interest rate structure and processing fees for new loans to remain competitive.

- (D) Identifying the level of compliance risk and putting appropriate mitigants in place for the product.

Oct/Nov 2007

48. Match the specific Non-Banking Financial Company (NBFC) activity in List I to its designated regulatory layer in List II.

List I: (Activity)

P. Standalone Primary Dealers (SPDs)

Q. NBFC-Peer to Peer Lending Platform (NBFC-P2P)

R. Top 50 NBFCs based on total exposure

S. NBFCs showing substantial increase in potential systemic risk

List II: (Regulatory Layer)

1. Upper Layer

2. Top Layer

3. Base Layer

4. Middle Layer

(A) P-1, Q-2, R-4, S-3

(B) P-3, Q-4, R-2, S-1

(C) P-2, Q-1, R-3, S-4

(D) P-4, Q-3, R-1, S-2

May/June 2025

49. 'Delta NBFC' launches a new digital lending platform. The Chief Compliance Officer (CCO) is included as a member of the 'new product' committee. According to the regulatory framework, what is the mandatory minimum duration for intensive monitoring of this new product to ensure compliance risk parameters are adequately monitored?

- (A) The first three months of introduction
- (B) The first six months of introduction
- (C) The first twelve months of introduction
- (D) The entire life cycle of the product

Oct/Nov 2019

50. Assertion (A): The Top Layer of the Non-Banking Financial Company (NBFC) regulatory structure is ideally expected to remain empty.

Reason (R): NBFCs are moved to the Top Layer only if the Reserve Bank is of the opinion that there is a substantial increase in potential systemic risk from specific NBFCs in the Upper Layer.

- (C) II, III, IV, and V
(D) I, II, and III

May/June 2019

39. Arrange the sequence of events as outlined in the Transition Plan for a Non-Banking Financial Company (NBFC) identified for inclusion in the Upper Layer (NBFC-UL).
- I. Board ensures stipulations prescribed are adhered to within a maximum of 24 months.
 - II. Department of Regulation, Reserve Bank advises the NBFC about its classification.
 - III. NBFC puts in place a Board approved policy for adoption of enhanced regulatory framework within three months.
- (A) I, II, III
(B) II, III, I
(C) III, I, II
(D) II, I, III

Oct/Nov 2006

40. 'Zeta Finance', a Middle Layer Non-Banking Financial Company (NBFC), intends to sanction a major loan involving a real estate project. The borrower notes that the required government clearances have been applied for but not yet obtained. Zeta Finance wishes to proceed. How must Zeta Finance handle this transaction under regulatory restrictions on loans?
- (A) Sanction is permitted, but disbursements occur only after the borrower obtains clearances.
 - (B) It must reject the proposal completely and bar the borrower from any future applications.
 - (C) It can sanction and disburse up to 50% of the loan amount immediately to aid the project.
 - (D) It must await clearance from the Reserve Bank of India before processing the real estate loan.

May/June 2021

41. Consider the following statements regarding the Transition Path for Non-Banking Financial Companies (NBFCs):
- I. Once categorized as NBFC-UL (Upper Layer), an NBFC shall generally be subject to enhanced regulatory requirement at least for a period of five years.

- II. The period of 3 months provided for charting out the implementation plan is subsumed within the 24-month time-period.
 - III. The methodology for assessing the NBFC-UL shall be reviewed periodically.
- Which of the above statement(s) is/are correct?
- (A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2010

42. What is the fundamental principle upon which the regulatory regime governing the Non-Banking Financial Company (NBFC) sector is built, ensuring operational flexibility through calibrated measures?
- (A) Principle of maximum capital preservation
(B) Principle of proportionality
(C) Principle of systemic dominance
(D) Principle of universal banking parity

May/June 2005

43. How is 'Compliance Risk' defined in the context of the Framework for Compliance Function in Non-Banking Financial Companies (NBFCs)?
- (A) Risk of legal sanctions, financial loss, or reputation loss due to non-compliance with laws and rules.
 - (B) Risk of loss due to inadequate or failed internal processes, people, and organizational systems.
 - (C) Risk of fluctuations in market interest rates negatively impacting the NBFC's current balance sheet.
 - (D) Risk associated with counterparties defaulting on their credit obligations or contractual duties.

Oct/Nov 2022

44. Which of the following statements is correct regarding the Base Layer of the regulatory structure for Non-Banking Financial Companies (NBFCs)?
- (A) It includes all deposit-taking NBFCs irrespective of their individual asset size.
 - (B) It includes non-deposit taking NBFCs with an asset size above the ₹ 1000 crore mark.
 - (C) It includes NBFC-Account Aggregators

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Which of the above statement(s) is/are correct?

- (A) I only
- (B) II only
- (C) Both I and II
- (D) Neither I nor II

Oct/Nov 2005

56. A Non-Banking Financial Company (NBFC) is evaluating loan applications from several borrowers who wish to finance their subscriptions to an Initial Public Offer (IPO). Borrower X requests a loan of ₹ 1.5 crore, while Borrower Y requests ₹ 80 lakhs. According to the scale-based regulation, how should the NBFC process these requests?

- (A) X's request is restricted to ₹ 1 crore, while Y's request can be sanctioned fully.
- (B) Both requests can be fully sanctioned as there is no specific cap on IPO financing amounts.
- (C) Neither request can be sanctioned, as NBFCs are prohibited from financing any IPO subscriptions.
- (D) X's request is sanctioned, but Y's request is rejected as it falls below the minimum threshold.

May/June 2020

57. The Chief Compliance Officer (CCO) of a Non-Banking Financial Company (NBFC) is appointed to a purchasing committee responsible for finalizing vendor contracts and sanctions. According to the guidelines regarding Dual Hatting, what is the prescribed nature of the CCO's role on this committee?

- (A) The CCO's role on such a committee would only be an advisory role.
- (B) The CCO must hold veto power over all purchasing decisions.
- (C) The CCO must function as the primary decision-maker for sanctions.
- (D) The CCO is entirely prohibited from attending any meetings of this committee.

Oct/Nov 2015

58. Under the Capital Guidelines, what is the primary objective of the Internal Capital Adequacy Assessment Process (ICAAP) for Non-Banking Financial Companies (NBFCs)?

- (A) To calculate the exact amount of Pillar 2 capital to be deposited with the Reserve

Bank.

- (B) To ensure adequate capital for all risks and encourage better risk management techniques.
- (C) To strictly mandate compliance with commercial banking capital adequacy ratios in all scales.
- (D) To eliminate residual risks entirely from the NBFC's balance sheet through strict controls.

May/June 2013

59. Given below are two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements and select the correct answer using the options provided.

Assertion (A): Examination of Compliance rigor prevalent in the Non-Banking Financial Company (NBFC) shall be a part of the Reserve Bank's supervisory risk assessment process.

Reason (R): The Compliance Policy of an NBFC strictly dictates the risk assessment methodology used internally by the Reserve Bank of India.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2021

60. Non-Banking Financial Company (NBFC) 'Beta Capital' assesses its capital needs strictly based on historical credit risk losses. It intentionally omits market risk and operational risk in its capital assessment framework. Under the Capital Guidelines for scale-based regulation, what is the regulatory expectation for Beta Capital?

- (A) It is fully compliant, provided credit risk is identified as its primary operational concern.
- (B) It must adopt the exact risk calculation models used by the largest commercial banks in India.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2009

51. In some Non-Banking Financial Companies (NBFCs), separate departments look after compliance with different statutory requirements. In such an organizational structure, which of the following statements is correct according to the prescribed framework?
- (A) Departments hold prime responsibility, but the Compliance Function must ensure overall oversight.
- (B) The Compliance Function relinquishes all oversight responsibilities to those specific departments.
- (C) The Chief Compliance Officer assumes direct operational control of those separate departments.
- (D) Adherence to applicable regulations becomes the sole responsibility of the CCO rather than staff.

Oct/Nov 2011

52. Government-owned NBFC 'Alpha Finance' is currently assessing its position under the scale-based regulatory framework. It has an asset size that would typically trigger Upper Layer inclusion but is still in the transition period to attain minimum Capital to Risk-Weighted Assets Ratio (CRAR). Based on the regulatory framework, what is the appropriate placement for Alpha Finance?
- (A) It must be placed in the Upper Layer immediately to mitigate systemic risks and maintain capital.
- (B) It must be directly escalated to the Top Layer until the minimum required CRAR is fully attained.
- (C) It is exempted from all scale-based regulations and retains an unclassified status during transition.
- (D) It will stay in the Base or Middle Layer

and not move to the Upper Layer till further notice.

May/June 2010

53. The annual review of Compliance risk to be carried out by Senior Management must ensure coverage of multiple aspects. Which of the following is NOT listed as a mandatory aspect of this annual review?
- (A) Compliance failures during the preceding year and consequential losses.
- (B) Listing of all major regulatory guidelines issued during the preceding year and steps taken.
- (C) Progress in the rectification of significant deficiencies pointed out in RBI inspection reports.
- (D) The performance appraisal scores of all operational staff.

Oct/Nov 2024

54. Consider the following statements regarding the regulatory changes for Net Owned Fund (NOF):
- The regulatory minimum NOF for NBFC-Factors shall ultimately be increased to ₹ 10 crores.
 - NBFC-MFIs in the North-East Region are required to achieve an NOF of ₹ 5 crore by March 31, 2025.
 - NBFC-P2P and NBFC-AA shall continue to have an NOF of ₹ 2 crores.
 - The NOF requirement for NBFCs with no public funds and no customer interface shall be increased to ₹ 5 crores.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III
- (B) II, III, and IV
- (C) I, III, and IV
- (D) I, II, and IV

May/June 2017

55. Consider the following statements regarding the Compliance Structure:
- Non-Banking Financial Companies (NBFCs) are free to adopt their own organizational structure for the Compliance Function.
 - The Compliance Department shall be headed by the Chief Executive Officer directly.

NODIA

category with its permissible regulatory placement?

- (A) Micro Finance Institution (NBFC-MFI) - Could lie in any layer depending on the parameters.
- (B) Government owned NBFCs - Placed directly in the Upper Layer regardless of asset size or risk.
- (C) Standalone Primary Dealers (SPDs) - Automatically placed in the Top Layer to monitor systemic risk.
- (D) Non-Operative Financial Holding Company (NOFHC) - Placed in the Middle Layer for regulatory purposes.

Oct/Nov 2024

12. Consider the following aspects to be covered by the Board-approved Compliance Policy of a Non-Banking Financial Company (NBFC):
- I. Measures to ensure the independence of the Compliance function.
 - II. Focus on various regulatory and statutory Compliance requirements.
 - III. Reporting requirements including Compliance risk assessment to Senior Management and the Board.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

May/June 2017

13. What is the targeted regulatory minimum Net Owned Fund (NOF) for NBFC-Investment and Credit Company (NBFC-ICC) that must be achieved by March 31, 2027?
- (A) ₹ 2 crore
 - (B) ₹ 5 crore
 - (C) ₹ 7 crore
 - (D) ₹ 10 crore

Oct/Nov 2005

14. A staff member in the lending department of a Non-Banking Financial Company (NBFC) refuses to provide a client file to the Compliance Officer, citing client confidentiality. The Compliance Officer insists that access is required for a compliance audit. According to the Framework for Compliance Function, what is the correct resolution to this conflict?

- (A) The staff member is correct; client confidentiality supersedes all internal compliance.
- (B) The Compliance Officer must obtain a court order to access files within the company.
- (C) Compliance Function has authority to access all records necessary to carry out duties.
- (D) The file can only be accessed if the external auditor grants written permission first.

May/June 2020

15. Arrange the glide path timeline for Non-Performing Asset (NPA) classification norms for Non-Banking Financial Companies (NBFCs) in the Base Layer in the correct chronological sequence.
- I. > 120 days overdue
 - II. > 90 days overdue
 - III. > 150 days overdue
- (A) I, III, II
 - (B) III, I, II
 - (C) II, I, III
 - (D) III, II, I

Oct/Nov 2015

16. What does the concept of “Dual Hatting” prohibit concerning the Chief Compliance Officer (CCO) of a Non-Banking Financial Company (NBFC)?
- (A) The CCO wearing formal attire while conducting branch inspections for the compliance department.
 - (B) The CCO reporting to both the Board of Directors and the external auditors at the same time.
 - (C) The CCO managing compliance for both a bank and an NBFC simultaneously within a large group.
 - (D) The CCO being given any responsibility which brings conflict of interest, especially in business roles.

May/June 2013

17. Identify the incorrect statement concerning the regulatory changes regarding the experience of the Board of a Non-Banking Financial Company (NBFC).
- (A) At least one of the directors shall have relevant experience of having worked in a bank or an NBFC.

- (C) It must factor in all risks, including credit, market, and operational, using internal methods.
- (D) It is exempted from tracking market risk if its asset size remains below the ₹ 5000 crore limit.

May/June 2024

- 61.** The CEO of a Non-Banking Financial Company (NBFC) wants to prematurely transfer the Chief Compliance Officer (CCO) due to differing views on regulatory interpretations. The CEO issues a direct transfer order without consulting the Board. Does the CEO have the authority to execute this transfer independently?
- (A) Yes, as the CEO has ultimate operational authority over all senior executives in the organization.
 - (B) No, transfer is only for exceptional cases with explicit prior approval of the Board / Board Committee.
 - (C) Yes, provided the transfer is within the same city to avoid logistical issues for the CCO.
 - (D) No, the CCO's transfer requires the prior written consent of the external auditor before execution.

Oct/Nov 2008

- 62.** Which of the following best describes the regulatory approach towards standard asset provisioning for Non-Banking Financial Companies in the Upper Layer (NBFC-UL)?
- (A) They are completely exempted from standard asset provisioning to maintain liquidity.
 - (B) They must maintain a uniform provisioning rate of 0.40% across all standard asset classes.
 - (C) They are required to hold differential provisioning towards different classes of standard assets.
 - (D) They are allowed to dictate their own standard asset provisioning norms without board approval.

May/June 2006

- 63.** Consider the following statements regarding the reporting requirements and lines of the Chief Compliance Officer (CCO):
- I. A prior intimation to the Reserve Bank

is required before the appointment, resignation, or removal of the CCO.

- II. A 'Fit and Proper' certification by the MD & CEO is required, confirming the candidate meets supervisory requirements.
- III. The CCO shall have direct reporting lines to the MD & CEO and/or Board / Board Committee.
- IV. The CCO shall not have any reporting relationship with the business verticals.
- V. The performance appraisal of the CCO shall be reviewed by the Board / Board Committee.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV
- (B) II, III, IV, and V
- (C) I, III, IV, and V
- (D) I, II, III, IV, and V

Oct/Nov 2017

- 64.** Consider the following statements regarding Sensitive Sector Exposure (SSE):
- I. Exposure to the capital market and commercial real estate shall be reckoned as sensitive exposure for Non-Banking Financial Companies (NBFCs).
 - II. The Board is strictly prohibited from determining various sub-limits within the overall SSE internal limits.

Which of the above statement(s) is/are correct?

- (A) I only
- (B) II only
- (C) Both I and II
- (D) Neither I nor II

May/June 2008

- 65.** What is the fundamental rationale behind providing a 'glide path' for Non-Banking Financial Companies (NBFCs) to achieve updated Net Owned Fund (NOF) and NPA classification norms?
- (A) To immediately penalize NBFCs that fail to meet new requirements on the day of the release.
 - (B) To provide transition time, allowing NBFCs to adjust operations smoothly without market disruption.
 - (C) To permanently exempt smaller NBFCs from adhering to any future regulatory

governance framework of Non-Banking Financial Companies. By establishing this committee, the Board can more efficiently focus on evaluating and managing the diverse risks the entity faces, including liquidity and operational risks. This specialized oversight ensures that risk management remains a priority and is integrated into the institutional strategy.

25. (A) Sanction is permitted, but disbursements occur only after the borrower obtains clearances. When dealing with commercial real estate loans where government clearances are pending, Non-Banking Financial Companies must follow specific prudential guidelines. The entity is permitted to sanction the loan based on the project's merits. However, actual disbursement of funds is strictly prohibited until the borrower has obtained all necessary local and statutory clearances. This prevents the misallocation of capital to unapproved projects.
26. (B) It ensures strict observance of requirements and prevents conflict, serving as a critical pillar. An independent Compliance Function serves as a critical pillar of governance in Middle and Upper Layer entities. By operating separately from business lines, it ensures strict observance of all regulatory and statutory requirements without being influenced by commercial pressures. This independence is vital for preventing conflicts of interest and maintaining the integrity of the financial system through objective monitoring and reporting.
27. (A) The Board determines limits for important sectors and establishes a limit for the NBFC sector.
For entities in the Upper Layer, the Board of Directors is responsible for establishing internal exposure limits to manage sectoral concentration. This includes determining limits for various important sectors and specifically setting a limit for exposure to the Non-Banking Financial Company sector itself. These internal benchmarks provide a framework for prudent lending and ensure the entity does not become overly exposed.

28. (C) Staff accountability for major Compliance failures does not need to be examined if the financial loss is minimal.

The Compliance Framework requires a robust policy that outlines approval processes for new products and ensures the dissemination of regulatory information to all staff. It is mandatory for the Compliance Function to circulate details of failures and preventive instructions. Importantly, staff accountability for major compliance failures must always be examined, regardless of whether a financial loss was incurred or not.

29. (B) CBS - Mandated for NBFCs with 10+ branches with a 3-year glide path from October 01, 2022.

Non-Banking Financial Companies with ten or more branches are mandated to implement a Core Banking Solution. A three-year glide path starting from October 01, 2022, is provided to facilitate this technological transition. Other governance rules include restrictions on independent directors, who may serve on no more than three Middle or Upper Layer boards, ensuring they can dedicate sufficient oversight.

30. (C) The Reserve Bank has determined that the NBFC warrants enhanced regulatory requirements.

The Reserve Bank utilizes supervisory judgment to identify specific Non-Banking Financial Companies for inclusion in the Upper Layer. This decision is based on an assessment that the entity, due to its risk profile or impact, warrants enhanced regulatory requirements and oversight beyond what asset size alone might indicate. This proactive measure ensures that potentially systemic risks are addressed through more stringent supervision.

31. (C) Assertion (A) is true, but Reason (R) is false.

Key Managerial Personnel in Middle or Upper Layer entities are generally prohibited from holding offices in other companies within those same layers, except for directorships in subsidiaries. This rule prevents concentration of influence and potential conflicts. However, there is no blanket restriction preventing them from assuming directorships in Base Layer

4. Includes NBFCs without public funds and customer interface.

- (A) P-1, Q-4, R-2, S-3
- (B) P-4, Q-3, R-1, S-2
- (C) P-3, Q-1, R-4, S-2
- (D) P-2, Q-1, R-3, S-4

Oct/Nov 2023

72. Consider the following statements regarding Compensation guidelines and the Chief Compliance Officer (CCO) in Non-Banking Financial Companies (NBFCs):

- I. NBFCs must put in place a Board approved compensation policy.
- II. The compensation policy must include malus/claw back provisions.
- III. The Nomination and Remuneration Committee shall ensure there is no conflict of interest.
- IV. The CCO should be sufficiently senior in the organization hierarchy.

Which of the above statement(s) is/are correct?

- (A) I, II, and III
- (B) II, III, and IV
- (C) I, III, and IV
- (D) I, II, III, and IV

May/June 2016

73. Consider the following statements concerning the Transition Plan for Non-Banking Financial Companies in the Upper Layer (NBFC-UL):

- I. During the transition period of 24 months, calibrated increment to business may be allowed through supervisory engagement.
- II. The roadmap towards implementation of the enhanced regulatory requirement must be approved by the Board and submitted to the Reserve Bank.

Which of the above statement(s) is/are correct?

- (A) I only
- (B) II only
- (C) Both I and II
- (D) Neither I nor II

Oct/Nov 2009

74. Regarding the scale-based regulatory categorization for specific entities, consider the following:

- I. NBFC-P2P (Peer to Peer Lending Platform) will always remain in the Base

Layer.

- II. Government owned NBFCs shall be placed in the Upper Layer till further notice.
- III. NBFC-Factors could lie in any layer depending on framework parameters.
- IV. Housing Finance Companies (HFCs) are included in the Middle Layer or Upper Layer.

Which of the above statement(s) is/are correct?

- (A) I, II, and III
- (B) I, III, and IV
- (C) II, III, and IV
- (D) I, II, and IV

May/June 2023

75. Consider the following statements about the 'Fit and Proper' certification for the Chief Compliance Officer (CCO) in a Non-Banking Financial Company (NBFC):

- I. It is provided by the MD & CEO of the NBFC.
- II. It confirms that the person meets the prescribed supervisory requirements.
- III. It must be provided to the Senior Supervisory Manager of the Reserve Bank.

Which of the above statement(s) is/are correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

Oct/Nov 2018

76. Consider the following statements regarding additional regulatory changes for Non-Banking Financial Companies in the Upper Layer (NBFC-UL):

- I. NBFC-UL shall be mandatorily listed within 3 years of identification as NBFC-UL.
- II. Disclosure requirements shall be put in place only after the actual listing of the company on a stock exchange.

Which of the above statement(s) is/are correct?

- (A) I only
- (B) II only
- (C) Both I and II
- (D) Neither I nor II

May/June 2007

77. Consider the following objectives defining the Scope and Coverage of the Compliance Function in a Non-Banking Financial Company (NBFC):

- I. Ensuring strict observance of all statutory and regulatory requirements.
- II. Ensuring adherence to standards of market conduct.
- III. Managing conflict of interest within the NBFC.
- IV. Treating customers fairly and ensuring suitability of customer service.
- V. Directing the credit appraisal mechanisms for large corporate loans.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV
- (B) II, III, IV, and V
- (C) I, III, IV, and V
- (D) I, II, IV, and V

Oct/Nov 2025

78. Identify the incorrect pairing regarding the governance guidelines for Non-Banking Financial Companies (NBFCs).

- (A) Key Managerial Personnel - Timeline of two years provided from October 01, 2022 for compliance.
- (B) Board Qualification - Applies as a rigid educational requirement regardless of the business type.
- (C) Whistle blower mechanism - Formulated for directors and employees to report all genuine concerns.
- (D) Removal of Independent Directors - NBFCs in the Upper Layer shall report to supervisors in the RBI.

May/June 2012

79. 'Omega', functioning in the Middle Layer, has identified a highly qualified candidate from the external market for the position of Chief Compliance Officer (CCO). The candidate has extensive regulatory experience but currently holds a position three levels below the CEO in their current firm. Under the appointment rules for NBFCs in the Middle Layer, can Omega recruit this CCO, and what rank requirement applies?

- (A) Recruitment from the market is prohibited; the CCO must be an existing employee of

the firm.

- (B) Omega can recruit the candidate, but the CCO must be immediately appointed to the Board.
- (C) Omega cannot recruit the candidate because external recruits must be at the MD level.
- (D) Omega can recruit from the market; the rank requirement can be relaxed for Middle Layer NBFCs.

Oct/Nov 2014

80. A Non-Banking Financial Company (NBFC) categorized as NBFC-UL (Upper Layer) has undertaken a voluntary strategic move, significantly scaling down its operations due to a change in its business focus. This scaling down is not due to deteriorating financial conditions. According to the transition guidelines, how does this affect its status in the Upper Layer?

- (A) It must rigidly remain in the Upper Layer for five years irrespective of any strategic operational changes.
- (B) It will automatically be placed in the Top Layer due to operational instability.
- (C) It is immediately deregistered as an NBFC by the Reserve Bank.
- (D) It may move out of the enhanced regulatory framework before the period of five years.

ANSWERS

1. (B) No, the review must explicitly cover the progress in rectifying inspection deficiencies. Senior Management is responsible for ensuring that the annual compliance programme review is comprehensive. This review must explicitly document the progress made in rectifying significant deficiencies identified during regulatory inspections, such as those by the Reserve Bank of India. Omitting this information is unacceptable as it undermines the oversight of corrective actions required to maintain regulatory standards and institutional integrity.
2. (C) They are mandated to transition to the Upper Layer within 12 months. Non-Banking Financial Companies that do not avail public funds and lack customer interface possess a distinct risk profile. Consequently, they receive differential regulatory treatment and typically remain in the Base Layer. There is no regulatory mandate requiring these specific entities to transition to the Upper Layer within twelve months. Current regulations apply until the Reserve Bank issues separate guidelines for them.
3. (A) Due to the significant increase in the size and interconnectedness of the NBFC sector. The evolution of the financial sector has led to a substantial increase in the size and interconnectedness of Non-Banking Financial Companies. This growth necessitates a scale-based regulatory framework to address the varying levels of systemic risk contributed by different entities. Calibrating regulations according to an entity's impact ensures that larger, more complex firms face stricter oversight to maintain financial stability.
4. (D) Once a year
Senior Management of a Non-Banking Financial Company is required to carry out a comprehensive exercise to identify and assess major compliance risks at least once a year. This annual assessment ensures that the entity remains aligned with evolving statutory and regulatory requirements. Regular identification of these risks allows the management to implement timely mitigants and update the overall compliance framework.
5. (B) ₹ 1000 crore
The scale-based regulatory framework classifies non-deposit taking Non-Banking Financial Companies with an asset size below ₹ 1000 crore under the Base Layer. This layer is subject to less intensive regulation compared to higher layers, reflecting the lower systemic risk posed by smaller entities. As firms cross this threshold, they transition to the Middle Layer, which entails more stringent requirements.
6. (C) Report promptly to the Board on the failure while ensuring appropriate remedial or disciplinary action.
When a significant failure in adhering to statutory reporting timelines is identified, Senior Management must act decisively. The framework requires prompt reporting of such failures to the Board of Directors to ensure transparency. Additionally, management is responsible for implementing appropriate remedial measures and taking disciplinary action against those responsible. This approach strengthens the accountability and compliance culture within the organization.
7. (D) I, II, and III
The Middle Layer of the regulatory framework encompasses several categories of Non-Banking Financial Companies. It includes all deposit-taking entities regardless of their asset size. Furthermore, non-deposit taking firms with assets of ₹ 1000 crore and above are classified here. Specialized entities such as Housing Finance Companies and Infrastructure Finance Companies also reside in this layer, ensuring robust oversight of these sectors.
8. (B) I, II, and IV
The Compliance Function is responsible for performing representative testing to ensure adherence to regulations. It must periodically

standards issued.

- (D) To allow NBFCs to artificially inflate their asset sizes over a longer period for compliance.

Oct/Nov 2013

66. Under the prudential guidelines, regulatory restrictions mandate that Non-Banking Financial Companies (NBFCs) are subject to restrictions on granting loans and advances to all of the following EXCEPT:
- (A) Directors of the NBFC
 - (B) Relatives of the directors
 - (C) Retail customers seeking vehicle finance
 - (D) Entities where directors or their relatives have major shareholding

May/June 2015

67. Which of the following is correct regarding the communication of compliance concerning Reserve Bank of India (RBI) inspection reports for a Non-Banking Financial Company (NBFC)?
- (A) It must be communicated to RBI necessarily through the office of the Compliance Function.
 - (B) It must be communicated directly by the operational staff to the RBI.
 - (C) It is solely the responsibility of the external auditors to communicate compliance.
 - (D) It requires communication through a third-party legal counsel only.

Oct/Nov 2012

68. Consider the following statements regarding governance guidelines for Non-Banking Financial Companies (NBFCs) in the Base Layer (NBFC-BL):
- I. The Risk Management Committee (RMC) may be constituted either at the Board or executive level.
 - II. Disclosure requirements shall include related party transactions and customer complaints.
 - III. NBFC-BL is not required to have a Board approved policy on grant of loans to directors and senior officers.
- Which of the above statement(s) is/are correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only

- (D) I, II, and III

May/June 2011

69. Which of the following domains or areas of knowledge is NOT explicitly mentioned as a required skill for the staff in the Compliance Function of a Non-Banking Financial Company (NBFC)?
- (A) Law and Accountancy
 - (B) Information Technology
 - (C) Risk Management
 - (D) Advanced Marketing Strategy

Oct/Nov 2020

70. Mr. Sharma is an independent director serving on the boards of four different Non-Banking Financial Companies (NBFCs): two in the Middle Layer (NBFC-ML), one in the Upper Layer (NBFC-UL), and one in the Base Layer (NBFC-BL). Under the governance guidelines, what adjustment, if any, is required regarding his directorships?
- (A) He must resign from all boards except for one single NBFC-ML to comply with requirements.
 - (B) He can maintain all his current board positions indefinitely without any professional conflict.
 - (C) He can't be on more than three NBFC boards (ML or UL), but there's no restriction for BL.
 - (D) He is strictly prohibited from holding directorship on a BL board while serving on a UL board.

May/June 2022

71. Match the regulatory layer in List I with its corresponding characteristic or entity inclusion in List II.
- List I: (Regulatory Layer)
- P. Base Layer
 - Q. Middle Layer
 - R. Upper Layer
 - S. Top Layer
- List II: (Characteristic/Inclusion)
- 1. Populated by way of a parametric scoring methodology.
 - 2. Ideally remains empty; populated upon substantial increase in potential systemic risk.
 - 3. Includes Core Investment Companies (CICs) and Infrastructure Debt Funds.

- 16.** (D) The CCO being given any responsibility which brings conflict of interest, especially in business roles.
Dual hatting refers to the practice where an individual holds multiple roles, which can lead to significant conflicts of interest. In the context of the Chief Compliance Officer, the regulatory framework strictly prohibits assigning any additional responsibilities that could compromise their independence. This especially applies to business roles or functions that the Compliance Function is expected to monitor and audit.
- 17.** (B) The Board experience requirement applies exclusively to NBFCs in the Upper Layer.
Regulatory guidelines emphasize that at least one director on the Board of a Non-Banking Financial Company must have relevant experience working in a bank or another NBFC. This requirement aims to enhance the professional management of the entity's affairs. Contrary to some assumptions, this mandate is not exclusive to the Upper Layer but applies across different regulatory layers.
- 18.** (C) Compliance risk is included in audit assessment, and the function is subject to regular audit.
The Internal Audit Function and the Compliance Function play distinct yet complementary roles in institutional governance. Internal auditors include compliance risk within their regular risk assessments to ensure that the compliance framework is functioning as intended. Consequently, the Compliance Function itself is subject to periodic internal audits. This verification process ensures that the compliance mechanisms are robust, independent, and effective.
- 19.** (D) I, II, III, IV, and V
The Internal Capital Adequacy Assessment Process for Non-Banking Financial Companies aligns with the principles established for commercial banks. It requires entities to factor in various risks, including credit, market, and operational risks, in a manner proportionate to their scale. While supervisors may not strictly insist on Pillar 2 capital, the process facilitates a critical dialogue regarding risk mitigation and assessment.
- 20.** (D) P-1, Q-2, R-3, S-4
The regulatory requirements for the Chief Compliance Officer are designed to ensure independence and authority. The CCO must be appointed for a fixed tenure of at least three years. Their rank should not be lower than two levels below the CEO. Selection must involve a Board-constituted committee, and they must possess the stature to exercise independent judgment and interact with regulators.
- 21.** (C) 9 per cent
Non-Banking Financial Companies classified in the Upper Layer are subject to enhanced capital adequacy requirements to mitigate systemic risk. Specifically, these entities must maintain a minimum Common Equity Tier 1 capital ratio of 9 percent of their Risk Weighted Assets. This higher threshold ensures that the most systemically important firms have a robust core capital buffer to absorb potential losses.
- 22.** (C) Reporting Line - Strictly reports to the business verticals to ensure operational alignment.
The Chief Compliance Officer must possess high integrity and a deep understanding of industry practices and legal requirements. Crucially, the reporting line must be independent; the CCO is strictly prohibited from reporting to business verticals to avoid conflicts of interest. Any removal or resignation of the CCO requires prior intimation to the Reserve Bank's Senior Supervisory Manager to ensure transparency.
- 23.** (B) P-3, Q-1, R-4, S-2
Prudential guidelines have revised exposure limits to better manage credit risk. The limit for a single borrower is now 25 percent of Tier I Capital, while the limit for a group of borrowers is 40 percent. Previously, these limits were based on Owned Funds, with ceilings at 15 percent for single parties and 25 percent for borrower groups, respectively.
- 24.** (A) To ensure the Board focuses efficiently on evaluating and managing the overall risks faced. The requirement for a Risk Management Committee is intended to strengthen the

circulate information about compliance failures to staff to prevent recurrence. Additionally, the function ensures the entity follows directions from all relevant regulators if its activities span multiple jurisdictions. Managing day-to-day liquidity risk is typically the responsibility of the risk management or treasury departments.

9. (A) The scoring methodology comprises quantitative parameters at 30% and qualitative parameters at 70%.

The Upper Layer consists of Non-Banking Financial Companies identified by the Reserve Bank through a specific scoring methodology. This methodology weights quantitative parameters at seventy percent and qualitative parameters at thirty percent. The top ten eligible firms by asset size are always included in this layer. Supervisors may also use their judgment to add entities that pose significant potential systemic risk.

10. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

The Chief Compliance Officer serves as the primary nodal contact between the organization and regulatory authorities to streamline communication and ensure accountability. Separately, the Compliance Department acts as an internal reference point, providing clarifications on statutory guidelines to operational staff. While both roles are essential for maintaining regulatory integrity, the internal advisory function does not directly explain the nodal external role.

11. (A) Micro Finance Institution (NBFC-MFI) - Could lie in any layer depending on the parameters.

Micro Finance Institutions are not confined to a single regulatory layer and can be classified into the Base, Middle, or Upper Layer depending on specific parameters like asset size and systemic importance. Other entities have fixed or tiered placements; for instance, Non-Operative Financial Holding Companies are generally in the Base Layer, while the Upper Layer requires specific identification through scoring.

12. (D) I, II, and III

A Board-approved Compliance Policy must comprehensively cover several critical areas to be effective. It must establish measures that guarantee the independence of the Compliance Function to prevent conflicts of interest. The policy should also focus on all relevant regulatory and statutory requirements. Finally, it must define reporting structures for compliance risk assessments to keep Senior Management and the Board informed.

13. (D) ₹ 10 crore

The regulatory framework specifies a glide path for Non-Banking Financial Companies to strengthen their capital base. Specifically, for Investment and Credit Companies, the minimum Net Owned Fund is mandated to increase over time. These entities are required to achieve a regulatory minimum of ₹ 10 crore by March 31, 2027, ensuring they possess sufficient financial resilience to support their operations.

14. (C) Compliance Function has authority to access all records necessary to carry out duties. To ensure effective oversight and auditing, the Compliance Function is granted the authority to access all necessary records and files within the organization. Internal confidentiality protocols cannot be used to prevent the Compliance Officer from performing their statutory duties. This unfettered access is essential for identifying risks and verifying adherence to regulatory standards, which takes precedence over internal departmental restrictions.

15. (B) III, I, II

The transition to stricter Non-Performing Asset classification for Base Layer entities follows a specific chronological sequence to ensure a smooth adjustment. Initially, the threshold for classification is set at more than 150 days overdue. This is followed by a reduction to more than 120 days overdue in the next phase. Ultimately, the standard is aligned to more than 90 days.

entities, making the claim of a total cross-layer restriction incorrect.

32. (D) P-2, Q-1, R-4, S-3

Governance provisions ensure transparency and accountability within financial institutions. A whistle blower mechanism allows directors and employees to report genuine concerns safely. Disclosures on modified opinions must include management's views on audit qualifications. Independent directors are restricted to positions on no more than three Middle or Upper Layer boards. Finally, Corporate Governance reports detail the board composition and shareholding.

33. (B) It is mandated to adopt a CBS with a glide path of 3 years from October 01, 2022.

Non-Banking Financial Companies operating with ten or more branches are required to adopt a Core Banking Solution to enhance their operational efficiency and reporting accuracy. As 'Gamma NBFC' operates fifteen branches, it must comply with this technological mandate. The regulatory framework provides a three-year glide path from October 01, 2022, to allow for the implementation of the necessary IT infrastructure.

34. (D) I, II, and III

The appointment of a Chief Compliance Officer requires a rigorous 'Fit and Proper' certification process. This certification is provided by the MD and CEO of the company and confirms that the candidate meets all prescribed supervisory requirements. The document must be submitted to the Senior Supervisory Manager of the Reserve Bank to ensure that the regulatory authority is informed.

35. (A) Exact remuneration amounts paid to all mid-level managerial staff.

Enhanced disclosure requirements for financial statements aim to improve transparency for stakeholders. These include the Corporate Governance report and detailed disclosures regarding any modified opinions expressed by auditors, including their impact on financial items. However, the regulatory guidelines do not mandate the disclosure of exact remuneration amounts for all mid-level managerial staff, focusing instead on key personnel and directors.

36. (D) I, II, III, and IV

Governance protocols require the periodic review of several critical operational and financial indicators. This includes monitoring any significant divergence in asset classification identified by the Reserve Bank and breaches of loan covenants. Additionally, exceptional income or expenditure items and any defaults on debt securities issued by the firm must be scrutinized. These reviews ensure the Board remains informed of systemic risks.

37. (D) The NBFC shall be required to report the event to the supervisors.

If an independent director in an Upper Layer entity resigns or is removed before their tenure concludes, the company must follow specific reporting procedures. The entity is required to report this event to the supervisors at the Reserve Bank. This ensures that the regulatory authority can monitor changes in board composition that might affect the governance and stability of systemically important firms.

38. (A) I, II, III, IV, and V

The Risk Management Committee is a vital component of an entity's internal oversight structure. It is mandated across regulatory layers, including the Base Layer, and can be established at either the Board or executive level. The committee is responsible for evaluating overall risks, including liquidity risk, and operates independently while reporting its findings directly to the Board of Directors.

39. (B) II, III, I

The transition process for an entity identified for the Upper Layer begins with the Reserve Bank advising the firm of its classification. Following this notification, the entity must put a Board-approved policy for the enhanced framework in place within three months. Finally, the Board ensures that all prescribed stipulations are fully adhered to within a maximum period of twenty-four months.

40. (A) Sanction is permitted, but disbursements occur only after the borrower obtains clearances.

Regulatory restrictions on real estate lending apply to Middle Layer entities to prevent exposure to high-risk projects. While the firm is permitted to sanction a loan for a project

with pending clearances, it cannot disburse any funds until the borrower provides proof that all local government approvals have been obtained. This ensures that the lender's capital is protected from project-related legal risks.

41. (D) I, II, and III

Once categorized in the Upper Layer, an entity typically remains under the enhanced regulatory framework for at least five years to ensure stability. The three-month period allotted for creating an implementation plan is included within the overall twenty-four-month transition timeframe. Additionally, the Reserve Bank periodically reviews the methodology for assessing these systemically important entities to keep it current.

42. (B) Principle of proportionality

The regulatory regime for the Non-Banking Financial Company sector is built upon the principle of proportionality. This approach ensures that the intensity of regulation and supervision is commensurate with the size, complexity, and systemic risk profile of the entity. By using calibrated measures, the framework provides operational flexibility to smaller firms while enforcing stricter standards on larger, more interconnected institutions.

43. (A) Risk of legal sanctions, financial loss, or reputation loss due to non-compliance with laws and rules.

Compliance risk is defined as the potential for legal or regulatory sanctions, material financial loss, or damage to reputation that an entity may suffer. This occurs because of a failure to comply with laws, regulations, rules, related self-regulatory organization standards, or codes of conduct applicable to its activities. Managing this risk is essential for maintaining the trust of regulators and stakeholders.

44. (C) It includes NBFC-Account Aggregators and NBFC-Peer to Peer Lending Platforms.

The Base Layer of the regulatory structure comprises non-deposit taking entities with assets below ₹ 1000 crore. Additionally, certain types of specialized firms are always classified here regardless of their asset size, such as Peer-to-Peer Lending Platforms and Account Aggregators. Other entities like Standalone

Primary Dealers or deposit-taking firms are generally placed in higher layers due to their risk profiles.

45. (A) I, IV, and V

Senior Management holds specific responsibilities within the compliance framework to ensure operational integrity. Their duties include identifying and assessing major compliance risks at least annually and formulating plans to manage those risks effectively. Furthermore, they are responsible for reporting any material compliance failures to the Board promptly while ensuring that appropriate remedial or disciplinary actions are taken to address the issues.

46. (C) Infrastructure Debt Fund - Non-Banking Financial Companies (IDF-NBFCs)

Several specific categories of firms are assigned to the Base Layer regardless of their asset size, including Peer-to-Peer Lending Platforms and Non-Operative Financial Holding Companies. Similarly, entities with no public funds and no customer interface are placed there. However, Infrastructure Debt Funds are classified in the Middle Layer along with other specialized entities like Housing Finance Companies, reflecting their systemic role.

47. (D) Identifying the level of compliance risk and putting appropriate mitigants in place for the product.

The Compliance Function plays a central role in the development and introduction of new products and processes. Its primary responsibility is to identify the level of compliance risk associated with these innovations. Before a product is launched, the function must ensure that appropriate mitigants are in place. This proactive involvement helps the organization avoid legal and regulatory pitfalls in its business expansion.

48. (D) P-4, Q-3, R-1, S-2

Regulatory layers are determined by an entity's activity and impact. Standalone Primary Dealers are placed in the Middle Layer. Peer-to-Peer Lending Platforms are assigned to the Base Layer. The top fifty entities in terms of total exposure form the candidate pool for identifying the Upper Layer. Finally, the Top

Layer is reserved for those entities showing a substantial increase in potential systemic risk.

- 49.** (B) The first six months of introduction
When a new product or process is introduced, it must undergo a period of intensive monitoring by the Compliance Function. This ensures that the actual compliance risk parameters remain within the levels predicted during the approval phase. The regulatory framework mandates that this intensive oversight must continue for at least the first six months following the product's official introduction to the market.
- 50.** (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The Top Layer of the regulatory framework is designed to be an exceptional category that ideally remains empty. It is intended to be populated only if the Reserve Bank determines that a specific entity in the Upper Layer has experienced a substantial increase in potential systemic risk. This structure ensures that the highest level of supervision is reserved for extreme cases of systemic importance.
- 51.** (A) Departments hold prime responsibility, but the Compliance Function must ensure overall oversight.
In organizations where separate departments handle specific statutory requirements, those departments maintain primary responsibility for their own compliance. However, the overarching Compliance Function must still provide comprehensive oversight to ensure no gaps exist. The Chief Compliance Officer is responsible for verifying that all such departments are operating within the established compliance framework and that all regulatory obligations are being met.
- 52.** (D) It will stay in the Base or Middle Layer and not move to the Upper Layer till further notice. Government-owned Non-Banking Financial Companies are subject to specific transition rules within the scale-based regulatory framework. Even if their asset size suggests they should be in the Upper Layer, they will remain in the Base or Middle Layer until further notice from the Reserve Bank. This pause allows these entities sufficient time to align their capital

adequacy and other standards with private sector norms.

- 53.** (D) The performance appraisal scores of all operational staff.
The annual compliance review conducted by Senior Management must focus on systemic and regulatory performance. It must cover compliance failures, consequential losses, and the implementation of new regulatory guidelines. Additionally, it must track progress on rectifying deficiencies found in inspection reports. Personal data, such as individual performance appraisal scores of operational staff, is not a mandatory component of this risk-focused review.
- 54.** (A) I, II, and III
The regulatory framework mandates a higher Net Owned Fund for various entities to ensure financial stability. NBFC-Factors are required to reach a target of ₹ 10 crore. Entities operating in the North-East Region, such as MFIs, have specific glide paths to reach ₹ 5 crore. Meanwhile, certain specialized firms like Account Aggregators and Peer-to-Peer platforms maintain an NOF requirement of ₹ 2 crore.
- 55.** (A) I only
Non-Banking Financial Companies are granted the flexibility to adopt an organizational structure for their Compliance Function that best suits their operational scale and complexity. However, the Compliance Department must be headed by a dedicated Chief Compliance Officer rather than the Chief Executive Officer. This separation ensures that the compliance function remains independent from the primary executive management responsible for business growth.
- 56.** (A) X's request is restricted to ₹ 1 crore, while Y's request can be sanctioned fully.
Regulatory guidelines impose a strict ceiling on the amount of credit that a Non-Banking Financial Company can provide to an individual for subscribing to an Initial Public Offer. This limit is set at ₹ 1 crore per borrower. Consequently, a loan request exceeding this amount must be capped at the limit, while

Oct/Nov 2020

7. Within what maximum period from the date of detection must a bank furnish a Fraud Monitoring Return (FMR) to the regulator electronically using the XBRL System?
- Seven days
 - 21 calendar days
 - 14 calendar days
 - One month

May/June 2008

8. Consider the following statements regarding the Central Payment Fraud Information Registry:
- It is envisaged that reporting would be done on a near real-time basis.
 - Entities must report all frauds to the registry within a maximum of 30 calendar days from the date of reporting by the customer.
 - The reporting timelines shall be reduced gradually to daily reporting.
- Which of the combination of statements is correct?
- I and II only
 - II and III only
 - I and III only
 - I, II, and III

Oct/Nov 2024

9. What is the normal tenure of a Chief of Internal Vigilance (CIV) in a Private Sector or Foreign Bank before any extension?
- Three years
 - Two years
 - Four years
 - Five years

May/June 2017

10. Consider the following statements regarding the tenure and appointment of a Chief of Internal Vigilance (CIV) in Private Sector or Foreign Banks:
- The normal tenure of a CIV is three years, extendable up to a further period of two years.
 - If a CIV shifts from one bank to another, the principle of overall tenure of six years will apply.
 - The CIV must not be involved in administrative transactions likely to have clear vigilance sensitivity.

- Which of the combination of statements is correct?
- I and II only
 - I and III only
 - II and III only
 - I, II, and III

Oct/Nov 2013

11. In the context of vigilance functions in banks, what is the primary aim of Detective Vigilance?
- Verifying a lapse through scrutiny of complaints, inspection reports, and audit reports
 - Setting up procedures and systems to restrain acts of wrongdoing and professional misconduct
 - Awarding swift and deterrent departmental inquiries and punitive actions against the culprit
 - Enhancing the level of managerial efficiency through participative governance and oversight

May/June 2025

12. Which of the following instances are classified as frauds based on legal and regulatory provisions?
- Misappropriation and criminal breach of trust.
 - Unauthorised credit facilities extended for reward or for illegal gratification.
 - Negligence and cash shortages where fraudulent intention is not suspected or proved, and the shortage is ₹2,000.
 - Irregularities in foreign exchange transactions with suspected intent to defraud.

Which of the above statement(s) is/are correct?

- I, II, and III only
- I, II, and IV only
- II, III, and IV only
- I, III, and IV only

Oct/Nov 2008

13. What constitutes 'Spear Phishing' as opposed to standard phishing?
- A numbers game sending thousands of fraudulent messages randomly to a wide pool of users
 - Targeting specific persons using special knowledge about the organisation's power

sub-limits within these overall exposures to ensure that the entity remains diversified and protected from sectoral volatility.

65. (B) To provide transition time, allowing NBFCs to adjust operations smoothly without market disruption.

A 'glide path' is implemented in regulatory changes to provide a structured transition period for entities to meet new requirements. This approach allows Non-Banking Financial Companies to adjust their capital levels and operational processes gradually. By avoiding the need for immediate compliance with major changes, the regulator helps prevent market disruptions and allows firms to align their business models without financial strain.

66. (C) Retail customers seeking vehicle finance. Regulatory restrictions are designed to prevent related-party lending and potential conflicts of interest within a Non-Banking Financial Company. These restrictions prohibit or limit loans to directors, their relatives, and entities where they hold significant influence. However, these rules do not apply to standard business operations such as providing loans to retail customers for purposes like vehicle finance, which constitute the core business.

67. (A) It must be communicated to RBI necessarily through the office of the Compliance Function. The office of the Compliance Function serves as the mandatory channel for all communications regarding compliance with the Reserve Bank's inspection reports. This centralized approach ensures that the responses are reviewed for accuracy and completeness by the department responsible for regulatory oversight. It also allows the Compliance Function to track the rectification of deficiencies and maintain a consistent dialogue with the regulator.

68. (A) I and II only
Even in the Base Layer, Non-Banking Financial Companies must adhere to essential governance standards. This includes constituting a Risk Management Committee at either the Board or executive level to oversee risks. Disclosure requirements are also mandatory, covering aspects such as customer complaints and related party transactions. Additionally, all entities

must have a Board-approved policy regarding the granting of loans to directors.

69. (D) Advanced Marketing Strategy
Staff members in the Compliance Function are expected to possess a diverse range of skills to effectively monitor regulatory adherence. These domains include law, accountancy, risk management, and information technology. While these technical and legal skills are necessary for auditing and interpreting regulations, expertise in advanced marketing strategy is not a requirement for the Compliance Function, as its role is oversight, not sales.

70. (C) He can't be on more than three NBFC boards (ML or UL), but there's no restriction for BL.

Governance rules limit the number of board positions an individual can hold in Middle and Upper Layer Non-Banking Financial Companies to three. This ensures that directors can dedicate adequate time to their oversight responsibilities. However, directorships in Base Layer entities are not counted towards this specific limit. Therefore, an individual can serve on three ML/UL boards while simultaneously holding a position on a BL board.

71. (B) P-4, Q-3, R-1, S-2
The regulatory framework categorizes entities based on their systemic footprint. The Base Layer includes firms without public funds or customer interface. The Middle Layer contains specialized entities like Core Investment Companies and Infrastructure Debt Funds. The Upper Layer is populated using a parametric scoring methodology to identify systemically important firms. Finally, the Top Layer remains empty until a substantial increase in risk is noted.

72. (D) I, II, III, and IV
Financial institutions are required to implement a Board-approved compensation policy that includes malus and clawback provisions to ensure accountability. The Nomination and Remuneration Committee must ensure that these policies do not create conflicts of interest. Within this structure, the Chief Compliance Officer must be a senior official with the

- (B) Banks need not report cases of attempted frauds of ₹1 crore and above to the regulator
- (C) The report on individual cases of attempted fraud of ₹1 crore and above should be placed before the Audit Committee of the Board
- (D) Attempted frauds having systemic implications may trigger the issuance of Caution Advices (CAs) by the regulator

May/June 2020

20. Which of the following statements about departmental proceedings are correct?
- I. The investigating officer should give the concerned official an opportunity to tender his version of facts.
 - II. Disciplinary proceedings do not ordinarily lie for a lapse not detected within 4 years from the date of the event.
 - III. The standard of proof required in a departmental enquiry is the preponderance of probability.
 - IV. The provisions of general evidence laws strictly apply to disciplinary proceedings.
 - V. The Disciplinary Authority plays a vital role in disciplinary matters and initiates action seeking CVO advice.
- Which of the above statement(s) is/are correct?
- (A) I, II, III, and V only
 - (B) I, II, IV, and V only
 - (C) II, III, IV, and V only
 - (D) I, III, IV, and V only

Oct/Nov 2010

21. Identify the INCORRECT statement regarding 'Vishing'.
- (A) Vishing involves leveraging Voice over Internet Protocol (VoIP)
 - (B) It involves using the telephone system to falsely claim to be a legitimate enterprise
 - (C) Vishing attackers often persuade victims to pay for shipping and handling to redeem a freebie
 - (D) Vishing strictly targets top management such as CEOs and CFOs to obtain sensitive corporate data

May/June 2018

22. The following question consists of two statements, one labeled as Assertion (A) and

the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): Cases of cash shortages of more than ₹10,000 are treated as fraud even if fraudulent intention is not suspected or proved at the time of detection.

Reason (R): Regulatory frameworks categorise all high-value cash shortages as inherent criminal breaches of trust, irrespective of intent.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2009

23. An official's action is deemed to have a vigilance angle under several circumstances. Which of the following is NOT explicitly classified as having a vigilance angle?
- (A) Demanding gratification other than legal remuneration in respect of an official act
 - (B) A genuine operational error made without any malafide intention or gross negligence
 - (C) Possession of assets disproportionate to his/her known sources of income
 - (D) Obtaining a valuable thing without consideration from a person with whom he has official dealings

May/June 2024

24. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): Phishing attempts can be successfully countered by relying solely on employee vigilance without any technical safeguards.

Reason (R): Two-factor authentication (2FA) adds an extra verification layer making it the most effective method for countering phishing attacks.

CHAPTER 32

Fraud and Vigilance in Banks

Oct/Nov 2005

1. Alpha Private Bank also implements an internal policy mandating a period of leave for staff at all levels (including the CEO) occupying sensitive positions to mitigate operational risks. This practice is officially referred to as:
(A) Participative vigilance leave
(B) Staff rotation and mandatory leave
(C) Disciplinary suspension
(D) Preventive rest period

May/June 2010

2. Which of the following pairs regarding penalties for Award Staff/Employees is INCORRECTLY matched?
(A) Stiff/severe major penalty : Removal/dismissal/compulsory retirement
(B) Superannuation benefits : Pension and/or Provident Fund and Gratuity
(C) Special pay withdrawn : Minor penalty causing immediate disqualification for future employment
(D) Withholding increments : Stopping increment(s) with or without cumulative effect

Oct/Nov 2016

3. How is 'Wrongful gain' defined in legal and regulatory frameworks?
(A) Gain of property by unlawful means by a person not legally entitled to it
(B) The intentional retention of property through deliberate concealment of a material fact
(C) The acquisition of high-value assets through a promise made without the intent to perform it
(D) The accumulation of corporate wealth through unauthorised and undocumented credit facilities

May/June 2022

4. Consider the following statements regarding fraud reporting:

- I. Banks are required to furnish a Flash Report (FR) for frauds involving amounts of ₹50 million and above within a week.
- II. The Flash Report must be addressed to the designated senior management of the regulatory authority.

Which of the following is correct?

- (A) Both I and II are true.
- (B) Both I and II are false.
- (C) I is true, but II is false.
- (D) I is false, but II is true.

Oct/Nov 2011

Which of the following best defines a 'Distributed denial of service (DDoS)' attack?

- (A) Intercepting communications between a user and a target server to capture sensitive data streams
- (B) Psychologically manipulating users into performing actions that are desirable to a malicious attacker
- (C) Using modified charging ports or infected cables to steal private data from a mobile phone or laptop
- (D) Overwhelming system resources to stop functioning and deny access to legitimate users

May/June 2015

6. Consider the following statements regarding Legal Audit of Title Documents:
 - I. Banks should subject title deeds of all credit exposures of Rs. 5 crores and above to periodic legal audit.
 - II. Banks are required to furnish a review note on legal audits to their Board/Audit Committee at monthly intervals.Which of the following is correct?
(A) Both I and II are true.
(B) Both I and II are false.
(C) I is true, but II is false.
(D) I is false, but II is true.

NODIA

necessary authority to operate independently across the organization's hierarchy.

73. (C) Both I and II

During the twenty-four-month transition period to the Upper Layer, an entity may be allowed calibrated increments to its business through active supervisory engagement. This ensures that growth is managed while standards are being raised. Furthermore, the entity must develop a detailed roadmap for implementing the enhanced regulatory requirements, which must be approved by the Board and submitted to the Reserve Bank for review.

74. (B) I, III, and IV

Certain types of firms have specific placements in the regulatory scale. Peer-to-Peer platforms always remain in the Base Layer, while Housing Finance Companies are typically in the Middle or Upper Layer. Government-owned entities are not automatically placed in the Upper Layer and currently reside in lower layers. Other firms, such as NBFC-Factors, can be classified into any layer based on specific parameters.

75. (D) I, II, and III

The Chief Compliance Officer must undergo a 'Fit and Proper' certification process to ensure they possess the required integrity and expertise. The MD and CEO are responsible for providing this certification, which confirms the candidate meets all supervisory standards. This document is then submitted to the Reserve Bank's Senior Supervisory Manager, facilitating regulatory oversight of key personnel in the compliance function.

76. (A) I only

Non-Banking Financial Companies identified for the Upper Layer are subject to additional requirements, including a mandate to become listed within three years of their identification. This move increases public accountability and transparency. However, enhanced disclosure requirements are not delayed until after listing; they must be implemented as part of the transition to the more rigorous regulatory framework.

77. (A) I, II, III, and IV

The scope of the Compliance Function is focused on ensuring adherence to statutory and regulatory requirements and standards of market conduct. It plays a key role in managing conflicts of interest and ensuring that customers are treated fairly. While the function monitors the compliance aspect of operations, it does not involve itself in the direct credit appraisal mechanisms for corporate loans.

78. (B) Board Qualification - Applies as a rigid educational requirement regardless of the business type.

Governance guidelines mandate that the Board includes members with relevant experience in banking or financial services. This is intended to ensure effective management rather than imposing rigid, specific educational requirements regardless of business context. Other mechanisms like whistle blower policies and the reporting of independent director removals to the Reserve Bank are essential components that ensure organizational transparency and regulatory oversight.

79. (D) Omega can recruit from the market; the rank requirement can be relaxed for Middle Layer NBFCs.

Non-Banking Financial Companies in the Middle Layer have the flexibility to recruit their Chief Compliance Officer from the external market. While the regulatory framework sets high standards for the CCO's seniority and stature, the specific rank requirement (no lower than two levels below the CEO) can be relaxed for entities within the Middle Layer to facilitate recruitment of qualified talent.

80. (D) It may move out of the enhanced regulatory framework before the period of five years.

Generally, an entity placed in the Upper Layer must remain under the enhanced framework for five years to ensure stability. However, if a firm undergoes a strategic, voluntary scaling down of its operations—unrelated to financial distress—it may be permitted to move out of this enhanced regulatory framework before the five-year period concludes, provided it no longer meets the inclusion criteria.

structure

- (C) Directing an Internet user to a fake website instead of a legitimate one via DNS poisoning
- (D) Using voice over internet protocol (VoIP) to falsely claim to be a legitimate banking entity

May/June 2014

14. Which of the following are Early Warning Signals (EWS) commonly identified in banking?

- I. Delay observed in payment of outstanding dues.
- II. Request received from borrower to postpone the inspection of godown for flimsy reasons.
- III. Routing of sales proceeds solely through consortium member banks.
- IV. LCs issued for local trade related party transactions without underlying trade transaction.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) I, II, and IV only
- (C) II, III, and IV only
- (D) I, III, and IV only

Oct/Nov 2023

15. Identify the correct statement regarding the Special Committee of the Board for monitoring and follow-up of cases of frauds (SCBF).

- (A) It monitors and reviews all frauds irrespective of the amount involved
- (B) It consists solely of the MD & CEO and the regulatory nominee
- (C) Its reviews must be submitted to the regulator before the end of the next quarter
- (D) It monitors and reviews all the frauds of ₹10 million and above

May/June 2006

16. Which of the following are preventive measures suggested for dealing with suspicious or large value cheques?

- I. Alerting the customer by a phone call and getting confirmation from the payer.
- II. Contacting the base branch in case of non-home cheques selectively.
- III. Ensuring secure handling of cheques

from the time they are tendered over the counters.

- IV. Mandatorily paying all high-value cheques without verification if presented by an old customer.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) I, III, and IV only
- (C) II, III, and IV only
- (D) I, II, III, and IV

Oct/Nov 2019

17. Which statement regarding the lodgement of complaints for Public Sector Banks is correct?

- (A) Frauds below ₹30 million committed by staff should be lodged with the CBI
- (B) Frauds of ₹30 million and up to ₹250 million should be lodged with the CBI
- (C) Frauds more than ₹500 million should be lodged with the SFIO
- (D) Frauds above ₹0.1 million but below ₹30 million committed by staff must be reported to the Banking Security and Fraud Cell (BSFC)

May/June 2012

18. Which of the following are considered actions deemed to have a vigilance angle?

- I. Demanding gratification other than legal remuneration.
- II. Obtaining valuable thing without adequate consideration from a person with official dealings.
- III. Possession of assets disproportionate to known sources of income.
- IV. Misappropriation, forgery, or cheating.
- V. Exercise of discretion in excess where no ostensible public interest is evident.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV only
- (B) I, II, IV, and V only
- (C) II, III, IV, and V only
- (D) I, II, III, IV, and V

Oct/Nov 2014

19. Identify the INCORRECT statement regarding the reporting of attempted frauds.

- (A) Banks are required to furnish a Flash Report for all attempted frauds of ₹50 million and above to the regulator

requests within this threshold can be sanctioned according to the firm's credit policy.

- 57.** (A) The CCO's role on such a committee would only be an advisory role.

To prevent conflicts of interest and maintain independence, the Chief Compliance Officer must not hold executive decision-making roles in business committees. If the CCO is included in a purchasing or sanctioning committee, their involvement is restricted to an advisory capacity. This allows the CCO to provide regulatory perspective without becoming directly responsible for the operational decisions they are required to monitor.

- 58.** (B) To ensure adequate capital for all risks and encourage better risk management techniques.

The primary objective of the Internal Capital Adequacy Assessment Process is to ensure that a Non-Banking Financial Company maintains sufficient capital to cover all the risks inherent in its business. Beyond simple regulatory ratios, it encourages the adoption of more sophisticated risk management techniques. This process helps the entity identify, measure, and mitigate risks that may not be fully captured under Pillar 1 requirements.

- 59.** (C) Assertion (A) is true, but Reason (R) is false.

The Reserve Bank includes an examination of an entity's compliance rigor as a fundamental part of its supervisory risk assessment process. This assessment evaluates how well the firm adheres to regulatory standards. However, the internal Compliance Policy of a Non-Banking Financial Company does not dictate the methodology used by the Reserve Bank for its supervision; the regulator utilizes its own standardized frameworks and judgment.

- 60.** (C) It must factor in all risks, including credit, market, and operational, using internal methods.

Under the capital guidelines for scale-based regulation, entities are required to conduct a holistic assessment of their capital needs. This assessment cannot be limited solely to credit risk. A Non-Banking Financial Company must factor in all material risks, including market risk and operational risk, using internal assessment

methods. This ensures that the capital held is truly adequate for the entity's entire risk profile.

- 61.** (B) No, transfer is only for exceptional cases with explicit prior approval of the Board / Board Committee.

The Chief Compliance Officer is provided with specific protections to ensure their independence from executive interference. Premature transfer or removal of the CCO is only permitted in exceptional circumstances. Such an action requires the explicit prior approval of the Board of Directors or a designated Board Committee. Therefore, a CEO cannot independently execute a transfer order for the CCO without following these governance protocols.

- 62.** (C) They are required to hold differential provisioning towards different classes of standard assets.

Non-Banking Financial Companies classified in the Upper Layer are subject to more granular prudential norms regarding asset provisioning. Unlike smaller entities that might use a uniform rate, these systemically important firms are required to hold differential provisioning. This means the provisioning rates vary according to the specific class of standard assets, reflecting the varying risk levels associated with different types of lending.

- 63.** (D) I, II, III, IV, and V

The Chief Compliance Officer must maintain a high level of independence through clear reporting lines and strict appointment protocols. These include direct reporting to the CEO or the Board and a total prohibition on reporting to business verticals. Furthermore, the Reserve Bank must be informed of appointments or resignations, and the CCO's performance appraisal must be conducted by the Board or its committees.

- 64.** (A) I only

Sensitive Sector Exposure includes lending to the capital market and commercial real estate, both of which are considered higher-risk areas. The regulatory framework requires the Board of Directors to set internal limits for these exposures. Contrary to any prohibition, the Board is expected to determine specific

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2015

25. Which of the following is NOT considered an Early Warning Signal (EWS) in the context of bank credit monitoring?
- (A) Prompt payment of undisputed statutory dues
 - (B) Frequent bouncing of high value cheques issued by the borrower
 - (C) Frequent invocation of BGs and unexpected devolvement of LCs
 - (D) Funding of the interest by sanctioning additional credit facilities

May/June 2011

26. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.
- Assertion (A): No disciplinary proceeding will ordinarily lie against any official for a lapse detected 5 years after the event.
- Reason (R): The 4-year time limit for initiation of disciplinary proceedings does not apply to cases of frauds, other criminal offences, or where malafides are inferable.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true, but Reason (R) is false.
 - (D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2022

27. What is the most effective method recommended for enterprises to mitigate both phishing and spear-phishing attacks?

- (A) Implementing Two-factor authentication and strict password policies
- (B) Banning the use of personal smartphones within all high-security office premises
- (C) Disabling all internal email communications to prevent the spread of malicious links
- (D) Using UV lamps to examine the integrity of all external physical and digital communications

May/June 2013

28. Read the following scenario and answer the questions that follow.

The internal audit of ABC Bank uncovers the concealment and finds that the manager accepted a luxury vacation from the borrower in exchange for his silence.

Does the manager's acceptance of the luxury vacation invite a vigilance angle?

- (A) No, because the vacation was taken outside of office hours and had no impact on duties.
- (B) Yes, but only if the market cost of the vacation exceeds his total annual gross salary.
- (C) Yes, as obtaining a valuable thing from someone with official dealings is a vigilance angle.
- (D) No, because the borrower offered it voluntarily without an explicit demand from the manager.

Oct/Nov 2007

29. What is the core rationale of Participative Vigilance?
- (A) To strictly punish delinquent employees through swift disciplinary and administrative actions
 - (B) To use preventive measures so honest officers can function without fear of harassment
 - (C) To reduce overall level of managerial efficiency in favour of enforcing rigid internal rules
 - (D) To ensure junior officers are encouraged to frequently complain against senior management

May/June 2021

30. Read the following scenario and answer the questions that follow.

Mr. Sharma receives a phone call from an

individual claiming to be a telecom executive offering a free upgrade to a 4G SIM. The caller asks Mr. Sharma to share a 20-digit number printed on his new SIM. After doing so, Mr. Sharma's SIM gets deactivated, and the attacker routes all OTPs to a new SIM, subsequently withdrawing funds.

The method used to compromise Mr. Sharma's mobile banking access is an example of which type of fraud?

- (A) Debit card skimming
- (B) SIM Cloning
- (C) SIM Swaps
- (D) Triangulation

Oct/Nov 2018

31. What is the primary purpose of a 'Flash Report' (FR) submitted by a bank to the regulator?
- (A) To report cash shortages exceeding ₹5,000 detected during a surprise audit or inspection
 - (B) To provide a monthly certificate confirming soft copies of all fraud returns were uploaded
 - (C) To report all attempted frauds of ₹1 crore and above for monitoring by the Audit Committee
 - (D) To inform the regulator of frauds of ₹50 million or more within a week of detection

May/June 2005

32. Read the following scenario and answer the questions that follow.
- Had the attacker used Voice over Internet Protocol (VoIP) to falsely claim to be a legitimate enterprise to scam Mr. Sharma into disclosing personal information over the phone, this act would specifically be termed:*
- (A) Smishing
 - (B) Spear Phishing
 - (C) Spoofing
 - (D) Vishing

Oct/Nov 2025

33. Arrange the following vigilance and governance approaches in the evolutionary sequence (from basic to advanced):
- I. Participative vigilance
 - II. Punitive and preventive vigilance
 - III. Pro-active and predictive vigilance
- (A) I, II, III

- (B) II, III, I
- (C) III, II, I
- (D) II, I, III

May/June 2019

34. Read the following scenario and answer the questions that follow.
- Simultaneously with the larger fraud, an attempted fraud of ₹15 million is detected at another branch of XYZ Bank, which was foiled by alert staff. What is the reporting requirement to the regulator for this foiled attempted fraud?*
- (A) It must be reported in the FMR within 21 days of detection by the branch.
 - (B) A Flash Report must be submitted immediately to the senior regulatory desk.
 - (C) The bank need not report it to the regulator but must place it before the ACB.
 - (D) It must be reported to the Central Fraud Registry directly by the bank manager.

Oct/Nov 2006

35. Match the Public Sector Bank fraud amount in List I with the corresponding law enforcement agency in List II.
- List I: Fraud Amount
- P. ₹10,000 to below ₹0.1 million
 - Q. ₹0.1 million to below ₹30 million
 - R. ₹30 million and up to ₹250 million
 - S. More than ₹500 million

List II: Agency

- 1. State CID / Economic Offences Wing of the State
 - 2. Joint Director (Policy) CBI, HQ New Delhi
 - 3. State Police
 - 4. CBI
- (A) P-3, Q-1, R-4, S-2
 - (B) P-1, Q-4, R-2, S-3
 - (C) P-3, Q-4, R-1, S-2
 - (D) P-4, Q-1, R-3, S-2

May/June 2023

36. Read the following scenario and answer the questions that follow.
- Global Trade Corp, a borrower enjoying a credit facility of ₹600 million, has recently shown signs of financial stress. The bank's credit monitoring team notices frequent changes in the scope of the project undertaken by the borrower. The borrower is not routing sales proceeds through the consortium member banks,*

and there are critical issues highlighted in the recent stock audit report. These observations are classified as:

- (A) Advanced Persistent Threats (APTs)
- (B) Punitive Vigilance triggers
- (C) Red Flagged Alerts (RFA)
- (D) Early Warning Signals (EWS)

Oct/Nov 2017

37. Match the suggested 'Sutras' for fraud risk management in List I with their respective themes in List II.

List I: Sutra

- P. Sutra 2
- Q. Sutra 5
- R. Sutra 7
- S. Sutra 10

List II: Theme

- 1. Cut losses and exit when the situation so demands
 - 2. Use extensively the 3 Cs - CFR, CRILC and CREDIT BUREAUS
 - 3. Follow the 5 'Cs' of CREDIT
 - 4. Institute checks and balances to calibrate PEOPLE RISK
- (A) P-3, Q-4, R-2, S-1
 - (B) P-4, Q-2, R-1, S-3
 - (C) P-1, Q-3, R-4, S-2
 - (D) P-3, Q-1, R-2, S-4

May/June 2016

38. Read the following scenario and answer the questions that follow.

Once Global Trade Corp is classified as an RFA or 'Fraud', the bank must report this account on which specific platform, due to its exposure exceeding the ₹500 million threshold?

- (A) Electronic Data Submission Portal (EDSP)
- (B) Central Fraud Registry (CFR) exclusively
- (C) CRILC data platform
- (D) SFIO national database

Oct/Nov 2012

39. Which of the following pairs regarding cyber frauds is correctly matched?

- (A) Sniffing : Diverting a user to a fake website instead of a legitimate one
- (B) Vishing : Leveraging VoIP to falsely claim to be a legitimate enterprise
- (C) Spear Phishing : Malware inserted to capture data from Random Access

Memory

- (D) Pharming : Sitting on a network and viewing/changing flowing information

May/June 2007

40. Read the following scenario and answer the questions that follow.

According to standard governance guidelines for Private Sector and Foreign Banks, what is the maximum possible continuous tenure Mr. Verma can serve as CIV in Alpha Private Bank, assuming his initial tenure is fully extended?

- (A) Five years
- (B) Three years
- (C) Four years
- (D) Six years

Oct/Nov 2021

41. Which of the following pairs regarding Electronic Banking attacks is INCORRECTLY matched?

- (A) DDoS : Tricking a user into thinking a file is harmless to establish a backdoor
- (B) Phishing : Duping a victim into opening an email from an ostensibly trusted entity
- (C) Smishing : Phishing activities over SMS
- (D) Juice jacking : Using charging ports to steal data

May/June 2009

42. Which of the following is NOT explicitly included in the legal definition of "Fraud"?

- (A) The active concealment of a fact by one having knowledge or belief of the fact
- (B) Negligence in verifying the terms of a commercial contract
- (C) A promise made without any intention of performing it
- (D) The suggestion, as a fact, of that which is not true, by one who does not believe it to be true

Oct/Nov 2005

43. Consider the following statements:

- I. Mere silence as to facts likely to affect a person's willingness to enter a contract is always considered fraud.
- II. Intent to defraud is of paramount importance in the definition of fraud under common legal principles.

Which of the following is correct?

- (A) A vulnerability that is patched and distributed on the exact day it is first discovered
- (B) Malware that automatically deletes all sensitive system files within a zero-day window
- (C) An attack that strictly avoids using electronic signatures or detectable digital footprints
- (D) Software vulnerability exploited before the developer can detect and patch the issue

Oct/Nov 2022

69. Read the following scenario and answer the questions that follow.

Assuming the allegations against the senior manager at ABC Bank are proven and a severe penalty is warranted, which of the following is an applicable major penalty for the manager (an Officer)?

- (A) Withholding of increment without cumulative effect for a period of three years.
- (B) Issuance of a formal censure and a written warning to be placed in the service file.
- (C) Transfer to a non-sensitive desk with a restriction on future promotions for one year.
- (D) Dismissal which shall be a disqualification for any future professional employment.

May/June 2013

70. A bank's Fraud Monitoring Group (FMG) classifies an account as a Red Flagged Account (RFA). What is the most appropriate next step regarding the reporting of this classification?
- (A) An FIR must be filed immediately with the CBI regardless of the specific amount involved
 - (B) The account must be closed and all associated funds frozen within a 24-hour business cycle
 - (C) Present details to CMD/CEO monthly and report to the Special Committee of the Board
 - (D) The borrower must be publicly declared as a fraudster in multiple national daily newspapers

Oct/Nov 2007

71. Read the following scenario and answer the questions that follow.

In a separate incident on the same day as Mr. Sharma's experience, his colleague had his debit card details and PIN copied by a hidden camera at an ATM. This incident is known as:

- (A) Site cloning
- (B) ATM Debit card skimming
- (C) Pharming
- (D) Vishing

May/June 2021

72. Arrange the stages of an Advanced Persistent Threat (APT) spear-phishing attack in the correct chronological order:

- I. The attacker steals the user's credentials, gaining access to sensitive areas.
- II. The attacker emails a departmental project manager using a duplicate standard email template.
- III. The perpetrator researches names of employees and gains access to the latest project invoices.
- IV. A link in the email redirects to a password-protected internal document, which is a spoofed version of an invoice.

- (A) III, II, IV, I
- (B) II, III, I, IV
- (C) III, IV, II, I
- (D) IV, II, I, III

Oct/Nov 2018

73. Read the following scenario and answer the questions that follow.

XYZ Public Sector Bank detects a massive loan fraud involving a network of outside builders and chartered accountants. The total amount involved is ₹350 million.

Within what timeframe must XYZ Bank furnish a Flash Report (FR) to the regulator for the ₹350 million fraud, and to whom should it be addressed?

- (A) Within one week of detection, addressed to the regulatory department in Mumbai.
- (B) Within 21 days from the date of detection to the CFMC headquarters located in Bengaluru.
- (C) Within 7 calendar days through the Electronic Data Portal maintained by RBI.
- (D) By the end of the next financial quarter to the Audit Committee of the Board of Directors.

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- (D) The silence relates specifically to the financial capacity of the person entering the contract

Oct/Nov 2024

51. Consider the following statements regarding Early Warning Signals (EWS) in loan accounts:
- I. Significant movements in inventory disproportionately differing vis-à-vis change in turnover is an EWS.
 - II. Foreign bills remaining outstanding with the bank for a long time is an EWS.
 - III. High value RTGS payment to related parties only is an EWS, but to unrelated parties is normal.
- Which of the combination of statements is correct?
- (A) I and II only
 - (B) II and III only
 - (C) I and III only
 - (D) I, II, and III

May/June 2017

52. In the context of cheque-related frauds, under what circumstance should the collecting bank file an FIR with the police rather than the paying bank?
- (A) When a truncated instrument is forged and subsequently sent through the clearing system
 - (B) When the paying bank refuses to honour a valid and CTS-2010 compliant physical cheque
 - (C) When an altered cheque involves transactions between two or more branches of the same bank
 - (D) When a genuine instrument is collected fraudulently by a person who is not the true owner

Oct/Nov 2013

53. Which of the following are aspects to be taken into account during the Annual Review of Frauds placed before the Board?
- I. Whether the systems in the bank are adequate to detect frauds within the shortest possible time.
 - II. Whether frauds are examined from staff angle and reported to the Vigilance Cell.
 - III. Whether deterrent punishment is meted out to the persons found responsible.
 - IV. Whether the bank has recovered 100% of

the defrauded amount in all cases.

Which of the above statement(s) is/are correct?

- (A) I, II, and III only
- (B) I, II, and IV only
- (C) II, III, and IV only
- (D) I, II, III, and IV

May/June 2025

54. Which of the following statements regarding 'Forgery' is correct?
- (A) A document made to conceal a previous negligent act always amounts to forgery
 - (B) The document must be made in the name of a real, existing person to constitute forgery
 - (C) Antedating a document may become forgery if the date is a material part of the forgery
 - (D) A man's signature of his own name can never amount to forgery

Oct/Nov 2008

55. Which of the following are functions of the Chief of Internal Vigilance (CIV) in Private Sector Banks?
- I. Collecting intelligence about corrupt practices committed by employees.
 - II. Investigating verifiable allegations reported to him.
 - III. Processing investigation reports for further consideration of the disciplinary authority.
 - IV. Registering FIRs against all customers unconditionally.
- Which of the above statement(s) is/are correct?
- (A) I, II, and III only
 - (B) I, II, and IV only
 - (C) II, III, and IV only
 - (D) I, III, and IV only

May/June 2014

56. Which of the following statements correctly describes 'Smishing'?
- (A) Using SMS messages to trick users into disclosing personal or sensitive information
 - (B) Using charging ports or infected cables to steal data from a mobile or laptop device
 - (C) Inserting malware to capture data directly from the system's Random Access Memory (RAM)
 - (D) Overwhelming the resources of a target

9. (A) Three years

Governance standards for private sector and foreign banks specify the duration for individuals appointed as the Chief of Internal Vigilance. The initial normal tenure for this critical role is established as three years. This duration is intended to provide sufficient time for the official to implement effective vigilance strategies while ensuring periodic rotation of leadership within the department.

10. (D) I, II, and III

Guidelines for vigilance leadership in private and foreign banks specify a three-year initial tenure, which can be extended. An overall ceiling of six years applies across multiple banks to ensure independence. Additionally, the Chief of Internal Vigilance must remain detached from administrative tasks that have vigilance sensitivity to maintain objectivity and prevent any potential conflicts of interest.

11. (A) Verifying a lapse through scrutiny of complaints, inspection reports, and audit reports

Detective vigilance focuses on identifying and verifying lapses or irregularities that have already occurred within an organization. This is achieved through systematic scrutiny of various sources such as customer complaints, internal inspection findings, and audit reports. Its primary goal is to uncover misconduct or procedural deviations that may indicate fraudulent activity, enabling the bank to take necessary corrective actions.

12. (B) I, II, and IV only

Regulatory frameworks classify specific acts as fraud, including misappropriation, criminal breach of trust, and unauthorized credit facilities granted for illegal gratification. Irregularities in foreign exchange with intent to defraud are also included. However, minor cash shortages without suspected fraudulent intent are typically treated as administrative lapses rather than formal frauds, unless they exceed specific high-value thresholds defined by regulators.

13. (B) Targeting specific persons using special knowledge about the organisation's power structure

Spear phishing is a highly targeted form of cyber attack that focuses on specific individuals or organizations. Unlike general phishing, which uses a broad approach, spear phishing leverages detailed information about the target's role or professional relationships. Attackers use this knowledge to craft convincing messages, increasing the likelihood of gaining unauthorized access to sensitive corporate data or financial systems.

14. (B) I, II, and IV only

Early warning signals are indicators that alert banks to potential credit defaults or fraudulent intent by borrowers. These include delayed payments, suspicious requests to postpone inspections, and issuing trade instruments without genuine underlying transactions. Conversely, routing sales proceeds exclusively through consortium member banks is generally considered a positive compliance behavior rather than a signal of distress or impending fraud.

15. (D) It monitors and reviews all the frauds of ₹10 million and above

The Special Committee of the Board for monitoring frauds is specifically tasked with the oversight of high-value fraud cases. It focuses on reviews and follow-up actions for all frauds involving amounts of ten million rupees and higher. This committee ensures that senior management remains actively involved in monitoring significant risks and implementing corrective measures to prevent future occurrences.

16. (A) I, II, and III only

Preventive measures for high-value cheques involve verifying transactions with the payer and ensuring secure handling from the moment of presentation. Contacting base branches for non-home cheques provides an additional layer of security. Mandatory payment of all high-value instruments without verification for long-term customers is not a recommended practice, as it bypasses essential security protocols meant to detect forgery.

- (C) Physical verification of the drawer at the branch for all cheques exceeding ₹50,000
- (D) Sending an automated SMS alert to the payer/drawer when cheques are received in clearing

Oct/Nov 2010

63. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): In respect of truncated instruments sent in clearing, reporting of frauds involving forged instruments is done by the paying banker and not the collecting banker.

Reason (R): To ensure uniformity and to avoid duplication of reporting, standard guidelines assign this responsibility to the paying bank.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2018

64. Which of the following is NOT considered a major penalty in the case of an Officer category staff?
- (A) Reduction to a lower grade or post
 - (B) Compulsory retirement
 - (C) Dismissal which shall ordinarily be a disqualification for future employment
 - (D) Warning or censure with an adverse remark entered against him

Oct/Nov 2009

65. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): A bank's Fraud Monitoring Group (FMG) must report all accounts classified as RFA beyond ₹500 million on the CRILC data platform.

Reason (R): Standard mandates require that all accounts beyond ₹500 million classified as RFA or 'Frauds' must be reported on CRILC in addition to other reporting requirements.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

May/June 2024

66. Which of the following is NOT a form of Man-in-the-Middle (MitM) attack?

- (A) Session hijacking
- (B) Replay attack
- (C) Malvertising
- (D) IP spoofing

Oct/Nov 2015

67. Read the following scenario and answer the questions that follow.

A senior manager at ABC Bank discovers that a corporate borrower has diverted funds to group companies and falsified salary documents. Instead of reporting the incident, the manager actively conceals this information during a credit review meeting, allowing the borrower to secure an additional credit facility.

Under legal principles governing contracts, does the manager's active concealment of facts regarding the borrower constitute fraud?

- (A) Yes, active concealment of a fact by one with knowledge of the fact is fraud.
- (B) No, because mere silence is never considered fraud under the legal provisions of the Act.
- (C) No, because the bank did not suffer a documented financial loss at the time of concealment.
- (D) Yes, but only if the manager received a subsequent personal benefit from the transaction.

May/June 2011

68. In the context of cyber threats, what is the primary characteristic of a 'Zero-day vulnerability'?

system to cause an immediate denial of service

Oct/Nov 2023

57. Which of the following are preventive measures for cheque-related frauds?

- I. Using 100% CTS-2010 compliant cheques.
- II. Strengthening infrastructure at cheque handling Service Branches.
- III. Ensuring the beneficiary is KYC compliant.
- IV. Checking at multiple levels for cheques above a threshold of ₹0.5 million.
- V. Examining cheques beyond ₹0.2 million under a UV lamp.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and V only
- (B) I, II, IV, and V only
- (C) II, III, IV, and V only
- (D) I, II, III, IV, and V

May/June 2006

58. Which of the following statements concerning Early Warning Signals (EWS) and Red Flagged Accounts (RFA) is INCORRECT?

- (A) A bank cannot afford to ignore an EWS but must use it as a trigger to launch a detailed investigation
- (B) The tracking of EWS should be seen as an additional, independent task separate from the credit monitoring process
- (C) Accounts beyond ₹500 million classified as RFA must be reported on the CRILC data platform
- (D) The Fraud Monitoring Group or a designated committee shall classify the account as RFA and put details to the CMD/CEO every month

Oct/Nov 2019

59. Which of the following sources may feed information as a complaint to the administrative authority or Chief of Internal Vigilance?

- I. Complaints received from employees or the public.
- II. Departmental inspection reports and stock verification surveys.
- III. Scrutiny of annual property statements.
- IV. Audit reports of the accounts of the bank.
- V. Intelligence gathered by law enforcement agencies or local bodies.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV only
- (B) I, III, IV, and V only
- (C) II, III, IV, and V only
- (D) I, II, III, IV, and V

May/June 2012

60. Which of the following statements about the time limit for initiation of disciplinary proceedings is INCORRECT?

- (A) No disciplinary proceeding will ordinarily lie against any official for any lapse not detected within 4 years from the date of event
- (B) The time limit restriction applies uniformly to cases of fraud and other criminal offences
- (C) The time limit does not apply to cases where malafides are inferable
- (D) A lapse not detected within two successive internal regular audits/inspections ordinarily prevents disciplinary proceedings

Oct/Nov 2014

61. Which of the following are considered 'Sutras' for better fraud risk management?

- I. Follow the 5 'Cs' of CREDIT.
- II. Bring in a CULTURE of eternal vigilance.
- III. Institute checks and balances to calibrate PEOPLE RISK.
- IV. EMPOWER fraud risk managers adequately.
- V. Rely on MARKET INTELLIGENCE.

Which of the above statement(s) is/are correct?

- (A) I, II, III, and IV only
- (B) I, II, IV, and V only
- (C) II, III, IV, and V only
- (D) I, II, III, IV, and V

May/June 2020

62. Which of the following is NOT one of the standard preventive measures for cheque-related frauds?

- (A) Ensuring the mandatory use of 100% CTS - 2010 compliant cheques across all bank branches
- (B) Examination under UV lamp for all cheques beyond a set threshold of ₹0.2 million

May/June 2005

74. Match the Cyber Threat in List I with its correct description in List II.

List I: Cyber Threat

P. Ransomware
Q. Trojan virus
R. Malvertising
S. Pharming

List II: Description

1. Online advertising controlled by hackers containing malicious code
2. Hacker directs an Internet user to a fake website instead of a legitimate one
3. Prevents access to victim's data and threatens to delete/publish it unless paid
4. Tricks a user into thinking it is a harmless file to establish a backdoor

- (A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-1, Q-2, R-3, S-4
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2025

75. Read the following scenario and answer the questions that follow.

With which law enforcement agency should XYZ Public Sector Bank lodge the complaint for the ₹350 million fraud committed by outsiders?

- (A) Banking Security and Fraud Cell (BSFC) of CBI
(B) State Police
(C) SFIO
(D) Joint Director (Policy) CBI, HQ New Delhi

May/June 2019

76. Match the type of Vigilance in List I with its core function in List II.

List I: Type of Vigilance

P. Preventive Vigilance
Q. Detective Vigilance
R. Punitive Vigilance
S. Surveillance Vigilance

List II: Core Function

1. Swift and deterrent action against the real culprit
2. Studying materials exposed while performing detective vigilance
3. Setting up procedures and systems to restrain misconduct
4. Scan of Complaints, Inspection Reports,

and Audit Reports

- (A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-2, Q-1, R-4, S-3
(D) P-3, Q-1, R-4, S-2

Oct/Nov 2006

77. Read the following scenario and answer the questions that follow.

Given that Global Trade Corp's credit facility is ₹600 million and multiple signals are present, who in the bank is responsible for classifying the account as a Red Flagged Account (RFA)?

- (A) The Special Committee of the Board for Frauds (SCBF)
(B) The Fraud Monitoring Group (FMG) or a designated committee
(C) The Chief Vigilance Officer (CVO)
(D) The Disciplinary Authority (DA)

May/June 2023

78. Match the cyber attack term in List I with its methodology in List II.

List I: Attack Term

P. Juice jacking
Q. RAM scrappers
R. Spoofing
S. Whaling

List II: Methodology

1. Phishing targeted at top management (CEO, CFO, CTO)
2. Malware inserted into POS machines to capture credit card data
3. Using an infected cable to steal data or upload malware
4. Sending a message claiming to be from a trusted, authorised person

- (A) P-3, Q-2, R-4, S-1
(B) P-2, Q-3, R-1, S-4
(C) P-4, Q-1, R-3, S-2
(D) P-3, Q-4, R-2, S-1

Oct/Nov 2017

79. Read the following scenario and answer the questions that follow.

Alpha Private Bank is establishing its internal vigilance framework. The Board appoints Mr. Verma as the Chief of Internal Vigilance (CIV). Mr. Verma begins by undertaking a study of existing procedures to find scopes for corruption and devise steps to minimise delays. The measure taken by Mr. Verma falls under

- (A) Both I and II are true.
- (B) Both I and II are false.
- (C) I is true, but II is false.
- (D) I is false, but II is true.

May/June 2010

44. How is 'Forgery' broadly defined in legal terms?
- (A) Deceiving a person to deliver any property using false oral statements or misleading representations
 - (B) Misappropriation of funds entrusted in a fiduciary capacity for personal or unauthorised gain
 - (C) Making a false document or electronic record with intent to cause damage to the public or any person
 - (D) Unauthorised handling of securities charged to the bank to facilitate fraudulent transactions

Oct/Nov 2016

45. Consider the following statements regarding the role of the Chief Vigilance Officer (CVO):
- I. The CVO is authorised to decide upon the existence of a vigilance angle in a particular case.
 - II. The CVO primarily performs a punitive role, and rarely engages in preventive vigilance.
- Which of the following is correct?
- (A) Both I and II are true.
 - (B) Both I and II are false.
 - (C) I is true, but II is false.
 - (D) I is false, but II is true.

May/June 2022

46. In cases where fraudulent intention is not suspected or proved at the time of detection, cash shortages of more than what amount should be treated and reported as fraud?
- (A) ₹5,000
 - (B) ₹50,000
 - (C) ₹10,000
 - (D) ₹1,00,000

Oct/Nov 2011

47. Consider the following statements regarding the offence of Forgery:
- I. The offence of making a false document is complete as soon as a document is made with intent to commit a fraud.

II. It is necessary that the document should be made in the name of a really existing person.

III. Offence of forgery can be abetted.

Which of the combination of statements is correct?

- (A) I and II only
- (B) I and III only
- (C) II and III only
- (D) I, II, and III

May/June 2015

48. What is the threshold amount for an exposure at the level of a bank to be classified as a Red Flagged Account (RFA) and reported on the CRILC data platform?
- (A) ₹10 million or more
 - (B) ₹50 million or more
 - (C) ₹250 million or more
 - (D) ₹500 million or more

Oct/Nov 2020

49. Consider the following statements regarding the Special Committee of the Board for frauds (SCBF):
- I. It monitors and reviews cases involving amounts of ₹10 million and above exclusively.
 - II. It consists of five members of the Board of Directors, including the MD & CEO.
 - III. A regulatory nominee is mandatorily included as a member of the Special Committee.

Which of the combination of statements is correct?

- (A) I and II only
- (B) II and III only
- (C) I and III only
- (D) I, II, and III

May/June 2008

50. Mere silence as to facts likely to affect the willingness of a person to enter into a contract does not constitute fraud, UNLESS:
- (A) The person keeping silence obtains a significant wrongful gain through the transaction
 - (B) The other party suffers a documented wrongful loss of property or legal entitlements
 - (C) Circumstances make it a duty to speak, or where silence is equivalent to speech

ANSWERS

1. (B) Staff rotation and mandatory leave
Internal control mechanisms in banks include the critical practice of staff rotation and mandatory leave for employees in sensitive positions. This administrative measure is designed to uncover hidden irregularities or fraudulent activities that might otherwise go unnoticed. By ensuring periodic absence, the bank mitigates operational risks and prevents individuals from maintaining prolonged, unchecked control over specific processes.
2. (C) Special pay withdrawn : Minor penalty causing immediate disqualification for future employment
Disciplinary frameworks for award staff distinguish between minor and major penalties based on the severity of the misconduct. While withdrawing special pay is categorized as a minor penalty, it does not typically lead to immediate disqualification for future employment. Such disqualification is usually reserved for the most severe major penalties, such as dismissal or removal from service.
3. (A) Gain of property by unlawful means by a person not legally entitled to it
Legal and regulatory definitions define wrongful gain as the acquisition of property through methods that violate the law. This occurs when an individual or entity obtains assets or benefits to which they have no legitimate legal claim. It is a fundamental component in establishing fraudulent intent, representing the illicit advantage gained at the expense of another party.
4. (A) Both I and II are true.
Regulatory guidelines require banks to submit a Flash Report for significant frauds involving amounts of fifty million rupees or higher. This report must be provided within one week of the fraud's detection to ensure immediate regulatory awareness. It must be formally addressed to the designated senior management at the regulatory authority's central office for monitoring and oversight.
5. (D) Overwhelming system resources to stop functioning and deny access to legitimate users
A distributed denial of service attack is a malicious attempt to disrupt the normal traffic of a targeted server, service, or network. This is achieved by overwhelming the target or its surrounding infrastructure with a flood of internet traffic. Such attacks render system resources unavailable, effectively preventing legitimate users from accessing necessary banking services or digital platforms.
6. (C) I is true, but II is false.
Banks must conduct periodic legal audits for title deeds associated with credit exposures of fifty million rupees and above to ensure document integrity. While this requirement is mandatory for risk mitigation, the reporting frequency for review notes to the Board or Audit Committee is typically quarterly rather than monthly. This process helps in identifying potential legal vulnerabilities early.
7. (B) 21 calendar days
Banks are mandated to submit a Fraud Monitoring Return electronically through the specified reporting system within a strict timeframe. This return must be filed within twenty-one calendar days from the date the fraud was detected. Timely reporting through the XBRL system is essential for maintaining an accurate and centralized database of fraudulent activities across the banking sector.
8. (C) I and III only
The central registry for payment frauds aims to facilitate reporting on a near real-time basis to enhance monitoring efficiency. While the ultimate goal is to transition toward daily reporting for all entities, a thirty-day reporting requirement for frauds is an established component of this registry framework to facilitate comprehensive monitoring across the sector.

which category of vigilance?

- (A) Detective Vigilance
- (B) Punitive Vigilance
- (C) Surveillance Vigilance
- (D) Preventive Vigilance

May/June 2016

80. Which of the following pairs regarding complaint lodgement by Public Sector Banks is correctly matched?
- (A) Frauds below ₹0.1 million : CBI Anti-Corruption Branch
 - (B) Frauds between ₹0.1 million and ₹30 million : Serious Fraud Investigation Office (SFIO)
 - (C) Frauds of ₹30 million to ₹250 million : State Police only
 - (D) Frauds of ₹250 million and above : Banking Security and Fraud Cell (BSFC) of CBI

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- 17.** (B) Frauds of ₹30 million and up to ₹250 million should be lodged with the CBI

Reporting requirements for public sector banks depend on the fraud amount and the parties involved. Frauds involving amounts between thirty million and two hundred and fifty million rupees are typically lodged with the Central Bureau of Investigation. This ensures that significant financial crimes are investigated by specialized national agencies, while smaller or staff-related cases follow different state or departmental protocols.

- 18.** (D) I, II, III, IV, and V

A vigilance angle is established when an official's actions involve corruption, misappropriation, or the abuse of authority for personal gain. This includes demanding illegal gratification, possessing disproportionate assets, and engaging in forgery or cheating. Furthermore, exercising discretion without public interest or obtaining valuable items from those with official dealings also signifies a vigilance angle, necessitating formal inquiry and disciplinary review.

- 19.** (A) Banks are required to furnish a Flash Report for all attempted frauds of ₹50 million and above to the regulator

Regulatory guidelines require banks to report successful high-value frauds using Flash Reports, and this requirement extends to all attempted frauds involving fifty million rupees or more. While attempted frauds of ten million rupees and above must be placed before the Audit Committee of the Board, those meeting the fifty million threshold must also be formally reported to the regulator within one week of detection.

- 20.** (A) I, II, III, and V only

In departmental proceedings, officials must be given an opportunity to present their version of facts. A four-year time limit from the date of the event generally applies for initiating proceedings, unless fraud or malafide intent is present. The standard of proof is based on the preponderance of probability rather than strict evidence laws. The Disciplinary Authority initiates these actions, often seeking advice from the vigilance department.

- 21.** (D) Vishing strictly targets top management such as CEOs and CFOs to obtain sensitive corporate data

Vishing uses voice-over-internet protocols and telephone systems to deceive victims into revealing sensitive information. While it is a common method for financial scams, it is not restricted to targeting top management alone. Vishing attacks are frequently directed at general bank customers or employees across all levels of an organization to gain unauthorized access to credentials or personal financial data.

- 22.** (C) Assertion (A) is true, but Reason (R) is false.

Cash shortages exceeding ten thousand rupees are automatically classified as fraud by regulators, even if fraudulent intent is not immediately evident. This classification ensures that significant discrepancies are investigated thoroughly. However, the regulatory framework does not categorize every high-value shortage as a criminal breach of trust; rather, it uses the classification to trigger standardized reporting and mandatory investigation protocols.

- 23.** (B) A genuine operational error made without any malafide intention or gross negligence

The concept of a vigilance angle is reserved for actions involving intentional misconduct, corruption, or gross negligence for personal gain. Genuine operational errors made in good faith during the course of regular duties do not carry a vigilance angle. Such errors are treated as administrative or performance issues rather than matters requiring intervention from the vigilance or disciplinary authorities.

- 24.** (D) Assertion (A) is false, but Reason (R) is true.

Employee vigilance is a critical defense but is insufficient on its own to counter sophisticated phishing attacks. Technical safeguards, especially multi-factor authentication, are essential because they provide a necessary secondary verification layer. These technical solutions significantly reduce the risk of unauthorized access, even if a user's primary credentials have been compromised through social engineering or fraudulent digital communications.

- 42.** (B) Negligence in verifying the terms of a commercial contract

Legal definitions of fraud emphasize intentional acts such as active concealment, making false suggestions, or making promises without the intent to fulfill them. These actions are designed to deceive another party. Conversely, mere negligence in verifying contract terms, while potentially a professional lapse, does not constitute fraud unless it involves a deliberate attempt to mislead or cause wrongful gain or loss.

- 43.** (D) I is false, but II is true.

Under legal principles, mere silence regarding facts that might influence a contract does not automatically constitute fraud, unless there is a specific legal duty to speak. However, the intent to defraud is a critical and paramount element in defining fraud. Establishing that a party acted with the deliberate purpose of deceiving another is essential for a legal finding of fraudulent conduct.

- 44.** (C) Making a false document or electronic record with intent to cause damage to the public or any person

Forgery is defined as the creation of a false document or electronic record with the specific intent to cause harm or commit fraud. This legal definition focuses on the act of fabrication or alteration intended to deceive others into believing a record is genuine. It is a serious offense that can target individuals, the public, or organizations, leading to significant legal consequences.

- 45.** (C) I is true, but II is false.

The Chief Vigilance Officer holds the authority to determine whether a specific case involves a vigilance angle, necessitating further inquiry. Contrary to being purely punitive, the role extensively involves preventive vigilance, which includes improving systems and procedures to reduce the potential for misconduct. This dual focus ensures both the correction of lapses and the proactive strengthening of organizational integrity.

- 46.** (C) ₹10,000

Regulatory guidelines set specific thresholds for reporting cash discrepancies as fraud to ensure

high-value losses are scrutinized. Cash shortages exceeding ten thousand rupees must be treated and reported as fraud, regardless of whether fraudulent intent is immediately proven at the time of detection. This mandatory classification ensures that significant shortages receive the highest level of investigative attention and standard reporting.

- 47.** (B) I and III only

The offense of forgery is completed as soon as a false document is created with fraudulent intent, regardless of whether it is successfully used. Furthermore, the act of forgery can be abetted by others who assist in its commission. It is not a requirement for the forged document to be made in the name of an existing person to be legally considered forgery.

- 48.** (D) ₹500 million or more

For credit monitoring and fraud prevention purposes, the threshold for classifying an account as red-flagged and reporting it on the CRILC platform is set at five hundred million rupees. This high threshold ensures that all banks sharing a large exposure are immediately alerted to potential risks, facilitating a coordinated response and preventing the borrower from exploiting information gaps between different financial institutions.

- 49.** (A) I and II only

The Special Committee of the Board for monitoring frauds is composed of five board members, including the MD and CEO. Its primary responsibility is to review cases involving amounts of ten million rupees and above. While the committee provides high-level oversight and ensures appropriate follow-up, the inclusion of a regulatory nominee is not a mandatory requirement for this specific committee's composition.

- 50.** (C) Circumstances make it a duty to speak, or where silence is equivalent to speech

In contractual law, silence is generally not considered fraud unless specific conditions are met. These exceptions occur when a person has a legal or ethical duty to disclose information, or when the act of remaining silent is practically equivalent to making a statement. In such cases,

focusing on penalties and rules, followed by the development of participative vigilance to involve all stakeholders in ethical governance. The most advanced stage is pro-active and predictive vigilance, which leverages data and technology to anticipate and prevent potential risks before they materialize.

- 34.** (C) The bank need not report it to the regulator but must place it before the ACB.

Attempted frauds that are successfully foiled by bank staff do not require formal reporting to the regulator through a Fraud Monitoring Return or Flash Report. Instead, these incidents must be documented internally and presented to the Audit Committee of the Board. This internal oversight ensures that the bank reviews its security controls and acknowledges the alertness of its employees.

- 35.** (A) P-3, Q-1, R-4, S-2

Reporting protocols for public sector banks involve different agencies based on the fraud amount. Small frauds are reported to the local state police, while medium-value cases go to the state's economic offenses wing. High-value frauds up to two hundred and fifty million are handled by the CBI, and the most significant cases involve senior CBI headquarters management for investigation.

- 36.** (D) Early Warning Signals

Indicators such as frequent changes in project scope, non-routing of sales through consortium banks, and adverse stock audit findings are classified as early warning signals. These signs provide advance notice to bank management regarding potential credit stress or fraudulent intent. Identifying these signals early allows banks to take preemptive measures, such as enhanced monitoring or classifying the account for further investigation.

- 37.** (A) P-3, Q-1, R-4, S-2

Effective fraud risk management involves several fundamental principles or sutras. These include strictly following credit assessment standards, implementing checks to manage risks associated with personnel, and utilizing centralized databases like the central fraud registry for information. Additionally, banks must be prepared to minimize financial losses

by exiting problematic accounts when necessary to protect the institution's overall financial stability.

- 38.** (C) CRILC data platform

When a large credit exposure exceeding five hundred million rupees is identified with red flags or classified as fraud, it must be reported on the CRILC platform. This centralized database allows multiple banks to share information about large borrowers, ensuring that risks are visible across the banking system. Such reporting is essential for collective monitoring and preventing systemic financial failures.

- 39.** (B) Vishing : Leveraging VoIP to falsely claim to be a legitimate enterprise

Vishing is correctly identified as a cyber fraud technique that uses voice-over-internet protocol to impersonate trusted entities over the phone. Attackers use this method to gain the trust of victims and extract confidential data. Other techniques like sniffing involve intercepting data streams, while pharming redirects users to fraudulent websites, each representing a different methodology for compromising digital security.

- 40.** (A) Five years

In private sector and foreign banks, the Chief of Internal Vigilance is initially appointed for a three-year term. This tenure can be extended by an additional two years, making the maximum continuous period five years in a single bank. This limit ensures that the vigilance function remains objective and independent, preventing any long-term stagnation or over-familiarity with internal processes.

- 41.** (A) DDoS : Tricking a user into thinking a file is harmless to establish a backdoor

A distributed denial of service attack focuses on overwhelming system resources to deny access to legitimate users, rather than using deceptive files to establish backdoors. The latter description actually refers to a Trojan virus. Other attacks like phishing via email, smishing via SMS, and juice jacking via infected charging ports are correctly associated with their respective deceptive methodologies in electronic banking.

- 75.** (A) Banking Security and Fraud Cell (BSFC) of CBI

High-value frauds in public sector banks, especially those involving outside parties like builders or professionals, fall under the jurisdiction of specialized federal agencies. Complaints for frauds of this magnitude are typically lodged with the Banking Security and Fraud Cell of the CBI. This specialized unit possesses the expertise and resources necessary to investigate complex financial crimes that cross state or international boundaries.

- 76.** (A) P-3, Q-4, R-1, S-2

Vigilance functions are categorized by their specific aims and methods. Preventive vigilance establishes systems to stop misconduct, while detective vigilance involves scanning reports and audits to identify lapses. Punitive vigilance ensures swift action against culprits, and surveillance vigilance focuses on studying information gathered during detective processes. Together, these different types of vigilance provide a comprehensive framework for maintaining organizational integrity and accountability.

- 77.** (B) The Fraud Monitoring Group (FMG) or a designated committee

Within a bank's organizational structure, the responsibility for classifying a suspicious account as red-flagged rests with the Fraud Monitoring Group or a committee designated for this purpose. This group analyzes early warning signals and other data to determine if an account poses a significant risk. Their decision triggers the specialized reporting and monitoring requirements mandated for large-value exposures across the banking system.

- 78.** (A) P-3, Q-2, R-4, S-1

Cyber attack methodologies vary significantly. Juice jacking utilizes compromised charging cables, while RAM scrapers capture data from point-of-sale machines. Spoofing involves impersonating a trusted source, and whaling is a specialized phishing attack targeting high-level executives like CEOs. Identifying these specific techniques allows financial institutions to develop targeted security protocols and

training programs to protect both their infrastructure and their senior leadership.

- 79.** (D) Preventive Vigilance

Preventive vigilance involves studying existing procedures to identify vulnerabilities and implementing changes to minimize corruption and delays. By proactively reviewing systems and devising steps to improve transparency, the vigilance official aims to prevent misconduct before it occurs. This strategic approach focuses on long-term institutional health by creating an environment where irregular practices are difficult to perform and easy to detect.

- 80.** (D) Frauds of ₹250 million and above : Banking Security and Fraud Cell (BSFC) of CBI

Public sector banks follow a strict hierarchy for reporting frauds to law enforcement agencies based on the amount involved. Frauds reaching the threshold of two hundred and fifty million rupees and above are specifically mandated to be reported to the Banking Security and Fraud Cell of the CBI. This ensures that the most significant and complex financial crimes are handled by national-level specialists.

the failure to speak is viewed as an intentional attempt to deceive the other party.

51. (A) I and II only

Disproportionate movements in inventory relative to turnover and long-outstanding foreign bills are classic early warning signals in loan accounts. These indicators suggest potential operational inefficiency or financial misreporting. While high-value payments to related parties are also concerning, the focus of these signals is on identifying deviations from normal business cycles that could point toward impending credit default or fraud.

52. (D) When a genuine instrument is collected fraudulently by a person who is not the true owner

Responsibility for filing an FIR in cheque-related fraud depends on the nature of the crime. When a genuine cheque is collected by someone who is not the rightful owner, the collecting bank is responsible for reporting the incident. This is because the lapse occurred during the collection process at that specific institution, whereas forged instrument frauds are typically reported by the paying bank.

53. (A) I, II, and III only

The annual review of frauds presented to the Board evaluates the adequacy of detection systems, the examination of staff accountability, and the effectiveness of deterrent punishments. These elements are essential for assessing the bank's overall risk management posture. While recovering funds is a goal, achieving one hundred percent recovery in every case is not a standard metric for evaluating the adequacy of systems.

54. (C) Antedating a document may become forgery if the date is a material part of the forgery
 Forgery involves the fraudulent alteration or creation of documents, which can include antedating if the date is a critical element used to deceive others. Even a person signing their own name can commit forgery if it is done with the intent to pass it off as someone else's signature. The key factor is the fraudulent intent and the potential for the document to mislead.

55. (A) I, II, and III only

The Chief of Internal Vigilance in private banks is responsible for gathering intelligence on corruption, investigating verifiable allegations, and processing reports for disciplinary action. These functions are central to maintaining internal integrity. However, registering FIRs against customers is not done unconditionally; it is a serious legal step taken only when specific evidence of fraud or criminal activity by the customer is identified.

56. (A) Using SMS messages to trick users into disclosing personal or sensitive information

Smishing is a form of social engineering that utilizes short message services to target individuals. Attackers send deceptive text messages that often contain malicious links or prompts to call a specific number. The goal is to trick the recipient into revealing private data, such as banking credentials or personal identification numbers, which can then be used to commit financial fraud.

57. (D) I, II, III, IV, and V

Comprehensive prevention of cheque fraud involves several layers of security, including the use of standardized compliant instruments and strengthening infrastructure at service branches. Ensuring beneficiaries are KYC compliant and implementing multi-level verification for high-value cheques are also vital. Furthermore, examining instruments above specific thresholds under UV lamps helps detect physical alterations or forgeries before payments are processed, protecting the bank and customers.

58. (B) The tracking of EWS should be seen as an additional, independent task separate from the credit monitoring process

Tracking early warning signals is not an independent or separate task but is an integral part of the overall credit monitoring process. These signals act as triggers for more detailed investigations into borrower accounts. Accounts exceeding five hundred million rupees must be reported on centralized platforms, and the classification of such accounts involves senior management and specialized internal fraud monitoring groups.

- 25.** (A) Prompt payment of undisputed statutory dues

Early warning signals highlight potential risks or irregularities in borrower accounts, such as frequent cheque bouncing or unexpected devolvement of trade instruments. Funding interest through additional credit is also a major red flag. Conversely, the prompt payment of statutory dues is a sign of financial health and operational compliance, indicating that the borrower is meeting their legal and financial obligations.

- 26.** (D) Assertion (A) is false, but Reason (R) is true.

The general four-year time limit for initiating disciplinary proceedings serves as a guideline for administrative efficiency. However, this limit is not absolute and does not apply to cases involving fraud, criminal offenses, or where bad faith is clearly inferable. In these serious instances, the organization retains the right to initiate action regardless of the time elapsed since the event occurred.

- 27.** (A) Implementing Two-factor authentication and strict password policies

Mitigating phishing and spear-phishing requires a combination of technical controls and robust security policies. Two-factor authentication is the most effective technical measure as it prevents unauthorized access even if passwords are stolen. Coupled with strict password policies and regular employee training, these measures create a strong defense against social engineering attacks designed to compromise sensitive corporate and financial data.

- 28.** (C) Yes, as obtaining a valuable thing from someone with official dealings is a vigilance angle.

A vigilance angle is clearly established when a bank official accepts a valuable item or benefit from a person with whom they have official dealings. In this scenario, accepting a luxury vacation from a borrower constitutes a breach of professional integrity. Such actions suggest potential corruption or conflict of interest, regardless of whether the benefit was explicitly demanded or offered voluntarily.

- 29.** (B) To use preventive measures so honest officers can function without fear of harassment
Participative vigilance focuses on creating a governance environment where transparency and preventive controls reduce the scope for misconduct. Its primary rationale is to empower honest employees by establishing clear systems and procedures. By doing so, it ensures that staff can perform their duties effectively without the constant fear of being unfairly targeted or harassed for genuine business decisions.

- 30.** (C) SIM Swaps

SIM swapping is a fraudulent technique where an attacker convinces a mobile carrier to link a victim's phone number to a SIM card controlled by the attacker. By doing so, the attacker intercepts all incoming calls and text messages, including one-time passwords for banking transactions. This allows the perpetrator to bypass security measures and gain unauthorized access to the victim's accounts.

- 31.** (D) To inform the regulator of frauds of ₹50 million or more within a week of detection

The Flash Report serves as an immediate communication tool for banks to alert regulators about high-value frauds. It is specifically required for frauds involving fifty million rupees or more. Submission must occur within seven days of detection, providing the regulator with early details about the incident, which facilitates closer monitoring and enables timely systemic interventions across the banking industry.

- 32.** (D) Vishing

Vishing, or voice phishing, involves the use of voice-over-internet protocol technology to deceive individuals. Attackers impersonate legitimate organizations over the phone to extract sensitive personal or financial information from their victims. This method relies on social engineering and the perceived urgency or authority of the caller to trick people into revealing credentials that are then used for fraudulent activities.

- 33.** (D) II, I, III

Vigilance approaches have evolved from basic punitive and preventive measures toward more integrated systems. The sequence began with

than a direct method of intercepting a live communication stream between two users.

- 67.** (A) Yes, active concealment of a fact by one with knowledge of the fact is fraud.
Active concealment occurs when an individual with knowledge of a fact deliberately hides it to mislead another party. Under legal principles, this behavior constitutes fraud because it involves a conscious effort to deceive. In a banking context, a manager concealing a borrower's financial irregularities to facilitate a loan is a clear example of fraudulent conduct, regardless of whether a personal benefit was received.
- 68.** (D) Software vulnerability exploited before the developer can detect and patch the issue
A zero-day vulnerability refers to a security flaw in software that is unknown to the developer. Because the flaw is undiscovered, no patch or fix exists to protect users. Attackers who find these vulnerabilities can exploit them immediately, hence the term zero-day. This creates a significant risk because traditional security measures may not recognize or prevent the attack until a patch is eventually released.
- 69.** (D) Dismissal which shall be a disqualification for any future professional employment
For an officer-level employee, the most severe major penalty for proven serious misconduct or fraud is dismissal from service. This penalty typically includes an official disqualification for any future professional employment in the sector. Other actions like warnings, censures, or temporary withholding of increments are considered minor penalties and do not carry the same permanent and devastating career consequences as dismissal.
- 70.** (C) Present details to CMD/CEO monthly and report to the Special Committee of the Board
Once an account is classified as red-flagged, the bank must follow established internal governance protocols. This includes presenting monthly details of the account's status to the CMD or CEO and reporting the findings to the Special Committee of the Board for monitoring frauds. These steps ensure that senior management provides continuous oversight

and that necessary investigative and corrective actions are prioritized.

- 71.** (B) ATM Debit card skimming
ATM skimming involves the use of illegal devices to capture information from the magnetic stripe of a bank card. Often, attackers also use hidden cameras to record the user's personal identification number as it is entered. This stolen data is then used to create counterfeit cards or perform unauthorized transactions, allowing the perpetrator to drain funds from the victim's bank account.
- 72.** (A) III, II, IV, I
A sophisticated spear-phishing attack begins with thorough research into the target organization to identify key personnel and relevant projects. Next, the attacker sends a deceptive email using a familiar template to build trust. This email directs the victim to a spoofed document or website designed to steal credentials. Once the credentials are obtained, the attacker gains unauthorized access to sensitive systems.
- 73.** (A) Within one week of detection, addressed to the regulatory department in Mumbai.
For high-value frauds involving amounts of fifty million rupees or more, banks are required to submit a Flash Report within seven days of detection. This report must be addressed to the specific department within the central regulatory authority responsible for banking supervision and fraud monitoring. Rapid reporting is essential for systemic risk assessment and ensures that regulators are informed of significant financial crimes.
- 74.** (A) P-3, Q-4, R-1, S-2
Different cyber threats employ distinct methodologies to compromise security. Ransomware encrypts data to demand payment, while Trojans masquerade as harmless files to create system backdoors. Malvertising uses malicious code within online ads, and pharming redirects legitimate website traffic to fraudulent destinations. Understanding these unique characteristics is vital for banks to implement appropriate technical defenses and educate staff on varied digital risks.

59. (D) I, II, III, IV, and V

Vigilance authorities receive information from various internal and external sources. These include formal complaints from the public or employees, findings from internal inspections and audits, and the scrutiny of annual property statements. Additionally, intelligence provided by law enforcement agencies can serve as a catalyst for investigations. This multi-source approach ensures that potential misconduct is captured through different monitoring and oversight channels.

60. (B) The time limit restriction applies uniformly to cases of fraud and other criminal offences

While a general four-year time limit exists for initiating disciplinary proceedings for administrative lapses, this restriction does not apply to serious matters. Cases involving fraud, criminal offenses, or evidence of bad faith are exempt from this timeframe. This ensures that the bank can still pursue accountability for grave misconduct even if it is discovered many years after the actual event occurred.

61. (D) I, II, III, IV, and V

Modern fraud risk management is built upon several core principles. These include applying rigorous credit assessment standards, fostering a culture of constant vigilance, and addressing risks associated with personnel through balanced controls. Empowering specialized managers and utilizing market intelligence are also critical components. Together, these strategies form a robust framework for detecting, preventing, and managing fraudulent activities within a financial institution.

62. (C) Physical verification of the drawer at the branch for all cheques exceeding ₹50,000

Standard preventive measures for cheque fraud include using compliant instruments, UV lamp examinations for high-value cheques, and sending automated SMS alerts to drawers. While verification is important, requiring physical presence at a branch for every cheque over fifty thousand rupees is not a standard regulatory mandate. Such a requirement would be impractical for day-to-day banking operations and customer convenience.

63. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

In the modern clearing system, truncated instruments are processed electronically. To maintain consistency and avoid duplicate reporting across the banking sector, guidelines specify that the paying bank is responsible for reporting any fraud involving forged instruments discovered during this process. This standardized approach ensures that regulatory databases remain accurate and that accountability for reporting is clearly defined within the clearing workflow.

64. (D) Warning or censure with an adverse remark entered against him

Disciplinary frameworks categorize penalties based on their impact on an officer's career and service status. Major penalties include severe actions such as reduction in rank, compulsory retirement, or dismissal from service, which may carry future employment disqualifications. Warnings or censures, even those recorded in a service file, are classified as minor penalties because they do not fundamentally alter the officer's current grade or employment status.

65. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Centralized credit information platforms are essential for monitoring large exposures across the banking industry. When an account with an exposure exceeding five hundred million rupees is red-flagged or classified as fraud, the bank's fraud monitoring group is mandated to report this information. This ensures that all lenders are aware of the increased risk, preventing the borrower from obtaining further credit from other institutions.

66. (C) Malvertising

Man-in-the-middle attacks involve an adversary interposing themselves between two communicating parties to intercept or alter data. Examples include session hijacking, replay attacks, and IP spoofing. Malvertising, however, refers to the use of online advertising to spread malware. While dangerous, it is a delivery mechanism for malicious code rather

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